ASSESSMENT OF CORPORATE GOVERNANCE PRACTICES IN JORDAN: AN EMPIRICAL INVESTIGATION

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Assessment Of Corporate Governance Practices In Jordan: An Empirical Investigation

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Abstract

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Keywords: Corporate Governance (CG), Critical Factors (CF), Best Practice (BP), Shareholders, Board of Directors (BOD), Organisation for Economic Co-operation and Development (OECD) Principles.

Corporate Governance (CG) nowadays is on the agenda of most developed and developing countries, including Jordan, and is receiving considerable attention in the business world as well as in the area of academic research, which is an indication of its importance for business development and society as a whole.

The knowledge base about CG in developing countries appears to be limited, but it is growing in size and importance. This study therefore aims to investigate current CG practices and barriers to the development of good CG practices in firms. In order to accomplish the research objectives, a mixed research methodology was adopted.

The findings of the study contribute to knowledge by providing empirical data to test and extend the theory of CG. The results suggest that most big and old firms are applying best practice of good CG. Regarding factors inhibiting the practice of effective CG, the results indicate that weakness of the legal environment for firms and lack of knowledge of BODs about CG principles are the most important factors.

The empirical results find that constitution, compliance and conscience will affect firm's performance positively. Separation between the position of

CEO and Chairman, the existence of independent NEDs, the use of board subcommittees and a strong disclosure regime also help firms to improve performance. On the basis of the empirical results, the study recommends that the government needs to reform the relevant legislation. These suggestions may strengthen the internal governance of firms, thereby increasing performance and maximise shareholders' wealth.

Dedication

The Memory of My Late Parents,

Diab and Aisha

May Allah Bless Their Soles

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Conducting a PhD research is not an easy task as it requires a commitment and willingness to overcome multiple challenges. However, I find this task and challenge very interesting because there is a high level of creativity involved in this task as well as exploring new insights and contributing to knowledge is also involved in this task. This long journey is successfully completed with continuous support and encouragement from a number of persons whom I want to deeply thank.

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My endless love to my children: Taqi, Hala, Marah and Zain, who filled my life with happiness, enthusiasm, and energy to face challenges.

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List of Abbreviations

ACs	Audit committees
AFM	Amman Financial Market
ASE	Amman Stock Exchange
ASEZ	Aqaba Special Economic Zone
BOP	Balance of payments
BOD	Board of Directors
CBJ	Central Bank of Jordan
CEO	Chief Executive Officer's
CG	Corporate governance
ECBPM	European Centre for Best Practice Management
EPC	Executive Privatisation Commission
EPU	Executive Privatization Unit
FRC	Financial Reporting Council
GAAP	General Accepting Accounting Principles
GAFTA	Greater Arab free trade area
GDP	Gross Domestic Product
IMF	International Monetary Fund
JCM	Jordan Capital Market
JIC	Jordanian Investment Corporation
JSC	Jordan Securities Commission
NACD	National Association of Corporate Directors
NEDs	NEDs
OECD	Organisation for Economic Co-Operation and Development

PIRC	Pensions and Investment Research Consultants
QIZ	Qualified Industrial Zone
RJ	Royal Jordanian
SAPs	structural adjustment programs
SDC	Securities Depository Centre
SEC	Securities and Exchange Commission
WB	World Bank
WTO	World trade organisation

CHAPTER ONE

1 THESIS INTRODUCTION

1.1 Introduction

Corporate governance (CG) is an important issue in many countries, and is attracting huge interest in the fields of academic study of finance as well as business studies. It is argued that good CG can help economies and firms to attract investors and support competitiveness by many means. Furthermore, recent study has revealed that economies with more liquid capital markets have good CG protections for minority shareholders. On the other hand, in a weak CG environment most firms tend to be controlled by main shareholders. A series of financial collapses have acutely harmed existing shareholders' and potential investors' confidence in the financial markets. Research in finance has concentrated on various ways to promote good CG systems in firms (Shleifer and Vishny, 1997; La Porta et al.,1999; La Porta et al., 2000; Monks and Minow, 2001; Black et al., 2006; Lee, 2006; Bhagat and Bolton, 2007; Bhagat et al., 2008; Monks and Minow, 2008; Bebchuk et al., 2009; Solomon and Solomon, 2010; Dalton and Dalton, 2011; Fan et al., 2011; Ammann et al., 2011). Therefore, CG is now on the agenda of most developing countries including Jordan. For this reason, this study contributes to the body of knowledge by recognising a series of critical factors that must be carefully considered to ensure successful best practice in the corporate governance system.

In short, corporate governance is as essential for public sector organisations as for private sector organisations (Mallin, 2004). Corporate governance has become an international phenomenon and on the agenda of most countries, including Jordan. The importance of corporate governance has received increased attention following a number of corporate scandals such as the South East Asia financial crisis in mid-1997, the Enron and WorldCom cases in the United States of America (Vinten, 2002; Dalton and Dalton, 2011), the Yukos case in Russia and the Parmalat case in Italy. All have illustrated shortcomings of the corporate governance systems in the related countries. Thus, currently, global business is concerned about what occurred, not only in the US but also the rest of the world.

There is no single accepted definition of what corporate governance is (Solomon and Solomon, 2010). The definition differs to some extent depending on the area under discussion, where the definition is used, and in which country it is being considered (Solomon and Solomon, 2004). Generally, corporate governance is interested with how the board of directors (BOD) and other stakeholders participate in managing a firm wisely (Cadbury, 1992; Monks and Minow, 2001). The functions of the BOD and the tasks of shareholders have been of most interest in the literature on corporate governance.

The report of the Organisation for Economic Co-operation and Development (OECD, 2004) recommended factors to improve the corporate governance system, to make firms operate more effectively and efficiently and, simultaneously, to maintain confidence between internal and external stakeholders. In line with this framework, corporate governance systems should encourage transparent and effective markets, be in line with the regulation and, obviously, articulate the separation of responsibilities between different parties.

Furthermore, corporate governance systems should protect shareholders' rights in addition to guaranteeing that all shareholders understand and practise their rights such as participating in a verdict on amendments or the sale of firm assets, similarly, issuing new shares and mergers, using voting rights and information disclosure.

Additionally, CG should guarantee that all shareholders, including those that are minority or foreign, are treated equitably. Moreover, corporate governance systems ought to protect the rights of other stakeholders such as employees, banks and bondholders. It should also support active partnership amongst stakeholders and firms. Corporate governance systems should offer key terms and conditions for disclosure and communication of key facts about a firm, from financial information to governance structure, as well as guarantee that the annual reports are submitted by independent auditors. Corporate governance systems should ensure that the strategic guidance of the firm offers a huge amount of information about the responsibilities of the board in protecting the firm and stakeholders. Finally, non-executive directors (NEDs) should be independent from executive members of the BODs and have no business involvement or relationship with the firm that may influence their independent verdict in particular with regard to firm's performance and selection of management.

In spite of there being a number of published studies and reports addressing corporate governance in developed countries, like the UK and USA, and developing countries, like Indonesia and Taiwan, no significant research has been carried out concentrating on the implications of corporate governance in Jordan. To fill this gap in the literature, this study investigates the current state of corporate governance in Jordanian firms, employing a survey methodology in the form of a postal questionnaire. The study utilises a qualitative research method, specifically, semi-structured interviews, carried out in the second stage of the study to provide further insights into the survey results. The data should allow the researcher to analyse the current state of corporate governance in Jordanian firms.

The remainder of this introductory chapter is structured as follows: Section 1.2 provides background information on the Jordanian economy; Section 1.3 will discuss the privatisation programme that took place in the country; Section 1.4 presents the corporate governance code of Jordan; Section 1.5 provides a clear explanation of the reasons behind the selection of the context of Jordan to conduct this study; Section 1.6 explains the rationale of the study; Section 1.7 examines the background and motivation of the study; Section 1.8 lists the research objectives; and finally, Section 1.9 presents the structure of the study.

1.2 Jordanian Economy

Jordan is a developing country in the Middle East, with a population of 6.3 million and a population growth rate of 2.2% (DOS, 2011). Jordan's natural resources are restricted to agricultural products and phosphates. The economy depends mainly on foreign support, tourism, services and the Jordanian labour force (Youngblood-Coleman, 2008).

One of the most important aspects which has characterised the Jordanian economy over the past decades is its reliance on outside income streams in the form of donations from other Arab countries in the region, in addition to remittances from Jordanian labour, particularly in wealthy Arab oil countries (CBJ, 2009). Since 1989, Jordan has been carrying out structural adjustment programmes (SAPs) and economic reform under the supervision of the

International Monetary Fund (IMF) and the World Bank (WB). The goal of these programmes is to integrate Jordan with the global economy (Al-hindawi, 2007). The first structural adjustment programme (SAP) was a five-year structural readjustment package, signed on April 1989. The most important objective of the first SAP was to bring back macroeconomic stability by developing the efficiency and competitiveness of the economy. One of the most important objectives was also to set the starting point for constant long-term economic growth (Export and Finance Bank, 2002).

In October 1991, a seven-year SAP was signed with the IMF to adjust the structural imbalance in the economy. The programme was designed to execute policies to improve economic growth through decreasing the government contribution to GDP, to improve the balance of payments and reduce the inflation rate. In spite of the fact that the national economy faced a lot of problems as a result of the international financial and economic crisis and the political and economic conditions of the region, the economy achieved a number of positive indicators, as expected. To shed some light on the performance of the Jordanian economy, Appendix B illustrates the most important economic indicators for the period 1990-2012. As mentioned, the Jordanian economy showed positive results for several indicators in spite of the influence of the global financial crisis which happened in 2008.

The above-mentioned positive aspects are evidence of the ability of the economy to cope with international shocks and bypass their negative influences. This could not have been achieved without the Jordanian government's continued efforts to develop the economic environment for investment in Jordan through approving a set of reform programmes to attract more domestic and foreign investment (Black et al., 2006). To do so, Jordan joined the WTO in 1999 as part of its plan to integrate into the international economy. Moreover, it signed several free trade agreements as illustrated in Table1.1. In addition, Jordan signed a number of trade and economic co-operation agreements with several countries (MIT, 2009). The Jordanian trade regulatory system has been changed to be similar to the WTO legislative framework (JIB, 2009). Therefore, new regulations have been created and many existing laws have been modified.

Table 1-1: Summary of the agreements signed by Jordan. Source: MIT, 2008.

The Agreement	Signing Date	Annotations
Greater Arab Free Trade Area (GAFTA)	February 1997	Free trade with 17 Arab countries during a transitional period of ten years, to be completed on October 1, 2007.
Jordan - EU Association Agreement	November 1997	Free trade with the European Union within a transitional period of 12 years.
World Trade Organization (WTO)	December 1999	Allowing custom duties of a maximum of 20% during the transitional period of ten years.
Jordan - US Free Trade Agreement	October 2000	Free trade with the USA, during a transitional period of ten years, to be completed on January 1, 2010.
Jordan - EFTA Free Trade Agreement	June 2001	Free trade agreement for 12 years with Iceland, Switzerland, Norway and Liechtenstein.
Agadir Free Trade Agreement	February 2004	Free trade agreement with Egypt, Tunisia and Morocco.
Jordan - Singapore Free Trade Agreement	May 2004	Free trade agreement for 10 years.

Put simply, the government of Jordan has paid most attention to economic problems. The most important priorities were given to economic development and reform, integration with the international economy and building a constructive investment climate. The government continues its effort to reform, since it is expected to support economic improvement in Jordan by pointing out the steps which should be followed in approving and developing a code of corporate governance in Jordan. The establishment of such a code would attract more foreign and local investors which, in turn, would help the improvement of Jordan's economy. Thus, the government's efforts continue to release and raise the openness of the economy in addition to revising the financial regulations in order to meet international standards. Additionally, Jordan has finished a huge privatisation process. This process was successful in confirming the efficiency of privatised firms (WB, 2008) and is discussed in the following section.

1.3 Privatisation in Jordan

It is important to state that one of the main goals behind the economic improvements in Jordan is to enhance the contribution of the private sector to developing the country (JIB, 2009). Jordan's privatisation agenda was initiated in 1996 by decreasing the Jordanian government's share in sectors directed by government-controlled projects. Thus, the government has focused on decreasing its intervention in the economy.

Jordan's privatisation agenda is mainly concentrated on transportation, telecommunications, water mining activities, and electricity sectors, in addition to various government shares in various companies (JSC, 2009). The recommended targets are attracting more foreign and local investors, deepening and improving the Amman Stock Exchange (ASE) and, most essentially, restricting the responsibility of the government to acting as regulator, instead of creator, of goods and services (El-Said, 2008).

The privatisation law, Law no.25, was disseminated in the year 2000 to offer a suitable legislative structure for privatisation in Jordan. The law places clear requirements to organise privatisation, facilitate its execution and supply an essential solid system, with transparency and clarity of operation, for the privatisation process, under mechanisms that keep it under government control (CBJ, 2008).

In short, privatisation was part of an economic programme that the government of Jordan adopted - self-reliance after the financial crisis that affected the country. In addition, new economic improvements were going on at a global level in terms of an increase of competitiveness and globalisation. Therefore, a crucial motivation for employing a corporate governance system in Jordan is that a good corporate governance system should be in place to give external and internal investors the confidence and assurance that such a system is protecting their rights.

1.4 Corporate Governance Code of Jordan

The regulations mainly derive from the growing the number of codes created by regulators; they present a key factor that strengthens the success of economies. Many developed countries have set guidelines and procedures which are in the mature phase, and all listed firms adhere to such code of CG (Gill, 2008; Mazen, 2014; ASE, 2014; Al-shurfa'a, 2008). However, importantly, and of interest to this thesis, in Jordan the code of corporate governance for listed firms has only been introduced in recent years. In fact, applying the code has become evidence of protecting the rights of all stakeholders. All stakeholders would encourage their implementation in order to build confidence in companies through enhancing their management performance, which in turn increases the performance of the economy, and enhances confidence in the investment climate (El-Said, 2008; Ali, 2013). It is also an indication of the stage of commitment attained by the firm's managements to good governance (ASE, 2014).

The Jordanian Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange' (ASE) was prepared in light of the improvement of the economy, and in accordance with the Jordan Securities

Commission's attempts to improve the capital market (Al-mobaydeen, 2009). The code contains rules of CG for firms listed at Amman Stock Exchange for the purpose of creating a framework that organises their management and identifies their duties and responsibilities to understand their objectives and protect the rights of all stakeholders. These rules depend mainly on legislation, precisely the Law of Securities and other regulations, the Firms Law, and the OECD principles. It should be noted that the application of the code is through the "compliance or explain" principle, which means that firms must comply with the rules of the code, and in case of non compliance with any of these rules, would be required to justify the reason for non compliance in the firm's annual report. This method is aimed at giving firms flexibility in implementing the code and enough time to get used to it, to improve awareness and to attain full compliance with the code gradually (ASE, 2014; Mazen, 2014; Ali, 2103; Al-mobaydeen, 2009).

The following sections of this chapter will discuss the reasons behind the selection of the context of Jordan to conduct this study.

1.5 Why Jordan?

In the present day, the business environment is characterised by evolutionary development and changes, such as international competition and globalisation (Jordan, 2014; Al-hindawi, 2007). These developments offer opportunities for economic growth and generate challenges for developing countries in how to deal with these developments for their best interest (El-Said, 2008). In light of the constantly changing business environment, many countries have opened their economies and have adopted international standards in every field so as to deal with the various challenges to economies. Jordan is one of the countries which are facing the challenges created by a rapidly changing business environment (Zurigat and Al-Gharaibeh, 2011; Youngblood-Coleman, 2008; Al-hindawi, 2007). Furthermore, corporate governance is a key area where Jordan has to make a major and important regulatory development to bring it in line with international standards (Zurigat and Al-Gharaibeh, 2011; JIB, 2009). Thus, in the belief that an efficient regulatory framework encourages the task of the private sector, Jordan has identified the need to establish business-friendly structures with strong emphasis on supporting entrepreneurial initiative (Jordan, 2014; Al-shareef, 2008).

Jordan has recognised national goals designed to enhance the investment environment. With the establishment of the Investment Promotion Law in 1995, and with other subsequent actions, Jordan has opened its economy to the wealth and prosperity of business to attract more domestic and foreign investment (Al-shareef, 2008; Black et al., 2006). The Investment Promotion Law of gives Jordan an advantage over some other Arab countries. The law affirms that both Jordanian and non-Jordanian investors are treated equally which attracts investment (Mazen, 2014; Jordan, 2014; ASE, 2014; Al-shareef, 2008; Black et al., 2006). Jordan particularly has advantages over some other countries, an attractive investment climate, a stable political environment, qualified human resources and access to major international markets; in addition to effective practice of good CG in Jordanian firms, this will attract investors.

Jordan is located at the junction of three continents, Asia, Europe and Africa. For many years, Jordan has been the heart of many countries around the world because of the social and economic growth being observed among the Arab countries. In addition, the experience of growth and legal reform programmes in various fields has seen Jordan recognised as a successful example among the countries of the region (Ciborra and Navarra, 2005; ASE, 2014; Al-shareef, 2008; Jordan, 2014; CBJ, 2014; Mazen, 2014; JIB, 2013).

Jordan has an advantage over other developing countries in general and the Arab countries especially in terms of its economic policies, financial liberalisation programmes, and openness to the outside world. This is clearly shown by Jordan joining the Greater Arab Free Trade Area (GAFTA) and signing a number of bilateral trade agreements (Al-hindawi 2007). However, these agreements (see Table1-1) have helped Jordan to impose itself as a hub in the area and driven it to create more success and a helpful business environment, making it the ideal target for investors. Furthermore, Jordan has a set of advantages in terms of the following: 1) advanced education system in terms of level and content; 2) the widespread use of bilingual Arabic/English in daily life; 3) the spread of universities in remote areas; and 4) the availability of a qualified workforce in all areas. These have made the international institutions like the International Monetary Fund (IMF) and the World Bank (WB) describe Jordan as a model for a developing country (Jordan, 2014; Al-shareef, 2008; Westrup and Al-Jaghoub, 2007).

Generally, Jordan suffers a lack of natural resources, but human skill is the wealth of Jordan, as well as strong and solid leadership, political stability, firm commitment to the private sector, and openness to the outside world (Al-mobaydeen, 2009; Al-hindawi, 2007). It is worth noting that the social and political stability of Jordan identifies it as one of the trading partners for many foreign investors (MIT, 2015). Clearly, the stability of the Jordanian environment has been positive and steady due to clear initiatives undertaken by both the government and the private sector.

Jordan has a combination of the characteristics of developing communities in general, and Arab communities in particular. This means that Jordan shares several characteristics with developing communities, most remarkably the lack of resources required to reach better levels of social and economic development, while it shares several characteristics with Arab communities, most remarkably political attitudes and social life as well as beliefs and cultural values (Al-mobaydeen, 2009). Hence, the results of this research will contribute to filling the gap in existing knowledge of the determinants of critical factors for implementing best practice in corporate governance, not only in the context of Jordan, but exceeding that to include developing communities as well. Despite Jordan being a developing country, this should not prevent it from adopting an effective CG system and gaining many advantages from applying the system in its firms.

It is believed that the above justification combined with the experience, networking and knowledge of the researcher in the Jordanian context (see Section 5.6) will provide a clear explanation of the reasons behind the selection of the context of Jordan in which to conduct this study.

1.6 The Rationale of the Study

Like many emerging market economies, Jordan faces a large gap in corporate governance. This gap exists due to amendment to the corporate governance codes to make them suitable to the context of each country (Saidi, 2004). The state of accounting in Jordan is still not well developed; actions need to be taken over a period of time to support its improvement. For instance, the issuance of Jordanian Accounting Standards has not been finished yet. Therefore, Jordanian firms or international firms that would like to invest in Jordan are unsure as to which accounting standards they must follow. This ambiguity has created some faults within the accounting climate, and led to some misstatements appearing from error or fraud. Furthermore, this research is extremely important since it is expected to support economic improvement in Jordan by pointing out the steps which should be followed in improving a code of corporate governance in Jordan. Establishment of such a code will attract more foreign and local investors which, in turn, will help in the improvement of Jordan's economy.

In fact, the researcher expects to identify variables which may assist firms to employ a good corporate governance system, by demonstrating the key barriers that may prevent good practice in corporate governance in Jordanian firms and suggesting a number of steps which could be considered to improve the corporate governance code in Jordan.

To the extent of the knowledge of the researcher, this research is the first of its kind in Jordan. Hence, this study intends to draw the attention of the Jordanian government, business employers, professional organisations, stock enlisted firms and investors to the need and importance of implementing good corporate governance systems in Jordanian firms.

1.7 The Motivation and Importance of the Study

La Porta (1997; 2000), Black et al. (2006), Abdelsalam et al. (2008) and Kaymak et al. (2008) highlighted the importance of corporate governance in emerging markets for attracting more local and international investors. Kay (1995) argues that corporate governance acts as a safeguard to prevent bankruptcy and collapse in firms. The importance of this study stems from the fact that the economy in Jordan is at the dawn of a new era and there is no in-depth study of corporate governance. There is a need to understand corporate governance in Jordan to gain insights into its current status. Since corporate governance is important for economic performance and the welfare of investors, the results of this study will recommend some suggestions to improve the current Jordanian corporate governance code. This study will be useful to decision makers as well as researchers seeking to further understand corporate governance practices and the issues surrounding MENA countries, including Jordan. The findings of this study will have an impact in Jordan by building awareness of the corporate governance concept and promoting the culture of corporate governance in Jordan. Further, the findings of the current study will be disseminated at international conferences as well as providing training programmes to policy makers and directors of firms in MENA countries including Jordan.

In addition, the study adds to the effort by the Jordanian government to bring Jordan into the worldwide corporate governance reform group and give new opportunities for firms to apply international corporate governance best practice. It will further help develop a framework that highlights corporate governance practice in Jordan and how it may strengthen firm performance (Ammann et al., 2011).

Another important contribution of the current study is to fill the gap in the literature by investigating and providing a comprehensive view of the status quo of CG in Jordan. Such a comprehensive view should serve as a basis to identify weaknesses and problems of CG in Jordan. In turn, this will help the main regulatory bodies to overcome problems and improve upon weaknesses in their current practices to ensure the success of their corporate governance improvement initiatives. It also provides support for related parties to cooperate in improving the corporate governance code in Jordan to meet international requirements. In addition, the findings of this study will be useful for developing and improving the current corporate governance system in Jordanian companies.

Moreover, this study will provide greater opportunities for researchers to conduct future work related to corporate governance in Jordan, a new environment (where legal, cultural, religious and political aspects are totally different from those in western countries) that has not been examined before. Unfortunately, corporate governance practice in Jordan is less well developed due to the lack of research in this area. Many steps need to be taken over a period of time to facilitate its development. This, combined with the previous discussion, motivated the researcher to carry out the current study. This will enrich the existing literature and contribute to the ongoing dialogue surrounding corporate governance in emerging markets.

1.8 The Research Objectives

The previous sections discussed the importance of a study of corporate governance in Jordanian firms, which is long due. In Jordan, the capital market is not perfect. Market frictions such as agency costs (Jensen and Meckling, 1976), transaction costs, asymmetric information (Myers and Majluf, 1984) and bankruptcy are relevant to the capital market and substantially influence a firm's investment and financial decisions (Zurigat and Al-Gharaibeh, 2011a). Moreover, the Jordanian market is small and thin with a low level of liquidity, monitoring, competition and investor protection which makes the cost of financing through primary markets high (Zurigat and Al-Gharaibeh, 2011b). This, along with the previous features of capital markets, increases the impetus of Jordanian firms for monitoring and controlling managerial behaviour through setting comprehensive corporate governance plans to enhance their performance and thereby maximising value. Although the Jordanian

Government has been implementing a comprehensive financial liberalisation programme to integrate its capital market with international ones, firms still face severe obstacles restricting their ability to generate external funds at a more attractive rate (Zurigat and Al-Gharaibeh, 2011a). This raises a key question, of the extent to which corporate governance in Jordan would enhance the performance of listed firms. In light of the above analysis regarding the nature of the Jordanian capital market, it seems that the performance factors are somehow different from those of developed markets. This may be attributed to institutional and tax regime differences. However, it does not necessarily mean that market frictions are a problem only for developing markets not for developed ones (Zurigat et al., 2013). Empirical studies that have been conducted in the context of developed countries provide evidence suggesting that these frictions still restrict the accessibility of firms to the capital market (Fazzari et al., 1988; Charlton et al., 2002). Therefore, the current study aims to provide a comprehensive study of the nature and current practice of corporate governance in Jordanian firms. To achieve this objective, the study will investigate the current practice of corporate governance principles in Jordanian firms. Participants in this study, namely regulators and managers of Jordanian firms, will be elicited regarding the current practice of corporate governance in their firms. In particular, the research objectives and specific research questions will be as follows:

- To identify the determinants of critical factors for implementing best practice of corporate governance in Jordan.
- To explore the current practice of corporate governance systems in Jordan and identify the factors that inhibits best practice.
- To identify the factors that inhibit best practice of corporate governance in Jordan.
- To empirically investigate the effects of corporate governance on firm performance (financial measures) in Jordan.
- To explore the respondents' perceptions regarding the effect of corporate governance on firms’ performance in Jordan.
- To investigate the relationship between corporate governance practices and firm characteristics (firm size, firm age and sector) in Jordan.

1.9 Thesis Layout

The remainder of the thesis is divided as follows: Chapter Two focuses on the literature relating to the historical development of corporate governance reform and the main reports and principles of corporate governance. In addition, this chapter reviews previous studies on corporate governance conducted in both developed and developing countries. Chapter Three discusses the critical factor of corporate governance and presents the agency theory as the frame work of the study, in order to set the scene for discussing corporate governance in Jordan. Chapter Four discusses methods used in this study to explore the use of corporate governance in Jordanian firms as well as including a presentation of the research objectives, research questions, data collection methods, the population, sample and design, the pilot study, questionnaire survey administration and interview method. Furthermore, the chapter discusses one of the key issues related to the primary data collection. Hence, this chapter covers the techniques and steps used to prepare the data for analysis.

Chapter Five presents the results of the questionnaire survey and a descriptive analysis of the main findings regarding the implementation of corporate governance in Jordanian firms. Chapter Six presents the second part of the analysis of data collected from interviews with regulators and managers in Jordanian firms. Chapter Seven presents a brief summary and discussion of the overall study, and highlights its findings. A number of recommendations and suggestions for future research are provided in Chapter Eight.

CHAPTER TWO

2 LITERATURE REVIEW

2.1 Introduction

Corporate governance (CG) has been receiving a lot of attention after the prominent financial scandals that resulted in the rapid collapse of high profile firms such as Barings Bank in the UK, WorldCom and Enron in the USA and the economic crisis that wiped out a number of Asian countries in 1997 in which stakeholders were severely affected (Mallin, 2010; Shleifer & Vishny 1997; Neal & Cochran 2008). In addition, failures and collapses have led general public, investors, regulators and international bodies, such as the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and World Bank (WB) to concentrate on improving corporate governance around the world (Mallin , 2010). Therefore, CG now is on the agenda of most developing countries including Jordan.

The main purpose of this chapter is to present a review of the literature on corporate governance so to provide a general picture of current practices. Also this chapter will present the legislative reforms that have taken place in Jordan. The remainder of the chapter is structured as follows: Section 2.2 presents an overview of the definitions of corporate governance. Section 2.3 discusses corporate governance models. Section 2.4 investigates corporate governance in developing countries. Section 2.5 presents the Companies Act 1997 and its major legislative requirements on public firms. Section 2.6 presents an overview of the restructuring of capital market that has occurred in Jordan in recent years. Section 2.7 examines the legislative reforms that have been taken to encourage foreign investment in the Jordanian financial market. The chapter ends with a summary in Section 2.8.

2.2 Corporate Governance Definitions

Corporate governance has been approached from a variety of disciplines such as economics, management, law, politics, culture, and sociology, contributing to different definitions from different angles, resulting in no one agreed upon definition of corporate governance (Mallin, 2007). Also, Solomon (2007) added that corporate governance has gained a lot of attention in the last decade from different interested parties such as regulators, professional bodies and academics. However, despite this fact, no specific definition has won general agreement among these parties.

In most cases, the concept of corporate governance can be discussed in terms of two issues: who controls the firm, and for what purposes? (Shleifer and Vishny, 1997). Actually, the classic problem of corporate governance is indicated by Berle and Means (1932) is due to the separation between the owners and managers. Zingales (1997), however, argued that corporate governance is a system by which directors and managers (or insiders) act in the best interest of outside investors (creditors and shareholders').

Furthermore, one of the most popular and earliest definitions of corporate governance was that presented by Sir Adrian Cadbury, head of the Committee on the Financial Aspects of Corporate Governance in the UK. In his report, he defined corporate governance

“..as the system by which companies are directed and controlled and through which boards of directors are responsible for the governance of their companies” (Cadbury, 2000 *).*

This report was later designated the ‘Cadbury Report’, which became famous for setting out requirements for corporate governance to be adhered by UK listed corporations. Apparently, this definition was accepted at the time, but much has changed since, and the nature of corporate governance has taken on additional perspectives. Sir Adrian Cadbury’s definition was extended, and he stated that:

“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals...the aim is to align as nearly as possible the interests of individuals, corporations and society.”

More precisely, corporate governance refers to the set of relationships between shareholders, board of directors, corporate management and other stakeholders (Monks and Minow, 2001).

A review of the corporate governance literature presents various narrow/broad definition and agency perception of corporate governance. For instance, in its agency sense, corporate governance can be defined as

"the set of rules and incentives by which the management of a company is directed and controlled in order to maximize the profitability and long term value of the firm for shareholders" (Shahid, 2001, p. 3).

This definition tends to accord with the agency theory, in which companies should act in favour of shareholders by maximising their profits (Shahid, 2001).

In its finance sense, Shleifer and Vishny (1997, p.737), presented the following definition:

“... Ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”.

Further, MacAvoy and Millstein (2003) stated that:

"Corporate governance is a set of structure relationships that determines authority and responsibility for the conduct of an organisation and its management."

Also, Larcker et al., (2007, p. 1) defined corporate governance as:

"The set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control".

A common theme in these definitions is that they are narrow because they ignore stakeholders and focus on the actions of managers.

On the other hand, other definitions have adopted a wider perspective that takes into account other stakeholders rather than only shareholders. For instance, Letza et al. (2004) offer a stakeholder's perspective on corporate governance, stating:

"Corporate governance is about the understanding and institutional arrangements for relationships among various economic actors and corporate participants who may have direct or indirect interests in a corporation, such as shareholders, directors/managers, employees, creditors, suppliers, customers, local communities, government, and the general public ."(p. 242).

Also, Tricker (1984) argues that:

"The governance role is not concerned with the running of the business of the company per se, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management ... beyond the corporate boundaries".

Kaplan and Norton (2000) assume the political approach focusing on the stakeholder interest, and defining corporate governance as the relationship between managers, shareholders, directors, customers, suppliers, employees and creditors and to one another to the firm. In the same context, the OECD (2004) principles of corporate governance also acknowledge a wide view of corporate governance, with a stakeholder emphasis, by stating that:

"Corporate governance is the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders like employees and creditors".

This is a broader definition of corporate governance since it takes into consideration the rights of stakeholders. However, using a stakeholder perspective, a good corporate governance system should determine the relationships between a company and a wide set of stakeholders. As Bain and Bland (1996) stated, it is: *"To add value to as many organisational stakeholders as possible".* Furthermore, based on a broad perspective to all stakeholders and the whole of the society, and in line with this definition, Solomon and Solomon (2007, p.14) defined corporate governance as:

".....the system of checks and balance, both internal and external to companies, which ensure that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity".

Thus, there are a set of definitions which refer to corporate governance based on various perspectives and there is no generally agreed definition of what the term corporate governance means (Anandarajah, 2004). Following the previous discussion, it seems that the range of definition of corporate governance can be addressed from narrow or broad perspective. Classifying these definitions does not reduce the differences from one definition to another. An assessment of the above definitions appears to suggest that not all of them limit the responsibility of companies to shareholders. These are based on a narrow agency perception of corporate governance as an internal task of a company. Instead, the definitions tend to argue that a good corporate governance system should determine the responsibility of companies to a range of stakeholders beyond only their investors.

2.3 Corporate Governance Models

In the early 1990s, research on corporate governance in countries other than the USA began to appear. At first, the research focused on other major world economies, primarily the UK, Germany, and Japan (Denis and McConnell, 2002).

The literature indicates two broad models of corporate governance at the extremes: the outsider model, which is used in Anglo-American countries (e. g. US, UK, Canada, Australia, New Zealand), and the insider model, which applies more in countries such as Germany, Japan and France. The outsider model places a great reliance on: equity finance; dispersed ownership; strong legal protection of shareholders; strong bankruptcy regulations and the courts; less role for creditors, employees and other stakeholders in company management; strong requirements for disclosure; and considerable freedom to merge with or acquire other organisations (Rosser, 2003). The insider model is characterised by: a high reliance on bank finance; concentrated ownership; weak legal protection of minority shareholders; a central role for stakeholders in the ownership and management of companies; weak disclosure; and limited freedom to merge or acquire (Rosser, 2003). It’s worth noting that the major players in the outsider model are shareholders, board of directors and management, known as the CG (corporate governance) triangle. On the other hand, the major players in the insider model are government, main bank, management and affiliated firm. Table 2.1 (from Solomon, 2007) summarises characteristics of both models of corporate governance.

Table2-1: Characteristics of Insider and Outsider Models of Corporate Governance

Aspect	Insider	Outsider
Owners	Insider shareholders	Outsider shareholders
Ownership structure	Concentrated	Dispersed
Separation of ownership and control	Little	Spread
Control over management	Insider shareholders	Manager
Agency problems	Rare	Exist
Hostile takeover activity	Rare Frequent	Frequent
Protection of investors	Weak	Strong
Shareholders' rights	Potential for shareholder by majority shareholders	Potential for shareholder democracy
Shareholders voting	Majority of shareholders tend to have to have more 'voice' in their investee companies	Shareholders characterized more by 'exit' than by 'voice'

Source: Solomon (2007)

As mentioned earlier, the number of significant events that have occurred over the past ten years or so, has led to heightened concern about the standard of corporate governance around the world (Pickett, 2007). These cases led to a pressing need for improvement and development in this system of checks and balances. However, the history of concern over corporate governance dates back to the start of business (Vinten, 2003). In the UK, for instance, the first corporate governance failure was in the 1700s, which known as the 'South Sea Bubble' (Dragomir, 2008). While in the United States of America (USA) there was the stock market collapse in 1929 (Clarke, 2004). In addition to crises, the history of corporate governance has also been concerned by a series of well-known firms collapsing: the Maxwell Group of newspapers; the collapse of the Bank of Credit and Commerce International; and Barings Bank. Thus, regulators have moved to improve the elements of corporate governance (Iskander and Chamlou, 2000).

2.3.1 United Kingdom

In the UK, there is a well-developed market with different shareholders types among others institutional investors, financial institutions and foreign investors. However, the development of corporate governance in the UK was originally driven by corporate failures and scandals of some big companies (Mallin, 2007). As mentioned earlier, in 1720, the earliest corporate collapse in UK history became known as the 'South Sea Bubble', which significantly changed business habits and regulations in the UK. For instance, the laws and regulations governing UK business were changed to protect investors trading on the stock exchange from corporate collapses such as this (Dragomir, 2008). In the late 1980s, financial scandals leading to the collapse of several prominent companies came to light in the UK. There was a strong private response alongside the public regulatory response. The corporate sector responded to the loss of confidence in financial reporting by setting up the Cadbury Committee in 1990 to develop a code of best corporate governance practice (Iskander and Chamlou, 2000).

In the early 1991, several large UK corporations collapsed (e. g. Coloroll and Polly Peck), As a result, one of the greatest supporters of active corporate governance, Sir Adrian Cadbury, chaired a commission and the Cadbury Report published by the British government and regulators (Arcot & Brun, 2006). The Cadbury committee took the name of its chairman and its report became known as the `The Cadbury Report'. This report was issued in 1992 with special focus on the importance of institutional investors as the largest and most influential group of shareholders has had a lasting impact (Dragomir, 2008). According to Solomon (2007), the Cadbury Report covered three main aspects of corporate governance, namely, the board of directors, shareholders and auditing. First, they stated that the most important corporate governance mechanism, which required constant monitoring and assessment, was the board of directors. Secondly, corporate transparency was also shown to play an important role for their shareholders and other stakeholders. Finally, the essential role in good corporate governance was the function of both financial accounting and internal auditing.

The Cadbury report had a major influence, not only on the UK corporate governance system, but also on an international level, with many countries around the world adopting a similar code of best practices to Cadbury (Clarke, 2004). In 1995, the Greenbury Report was issued in response to shareholders' concerns about the structure of boards' and directors' remuneration. The committee investigated directors' remuneration in large UK quoted companies. The main recommendation was for remuneration committees and the disclosure of directors' remuneration in annual reports to their shareholders. Mallin (2007) states that strengthening accountability and enhancing the performance of directors were essential recommendations of the Greenbury Report, and this could be done by disclosing the directors' remuneration to their shareholders annually, linked to performance measures of individual directors.

In 1998, the Report of the Hampel Committee was issued, reviewing the implementation of the recommendations of the Cadbury and the Greenbury committees. The Combined Code was published in the same year. The Hampel Report also emphasised similar issues considered by Cadbury. The Combined Code consisted of 18 principles and 48 code provisions related to the Cadbury, Greenbury and Hampel recommendations published by the London Stock Exchange (Keasey, Thompson et al., 2005).

The Enron collapse in the USA spurred the UK and the rest of the world into re-evaluating issues related to corporate governance, particularly the role of NEDS. In the UK, the Higgs Committee report was published in 2003 with special focus on the effectiveness of non-executive directors. In 2003, the UK reviewed the Combined Code, which was originally published in 1998, to cover a number of key Higgs recommendations (Solomon, 2007). Thus, UK reforms of corporate governance followed the Cadbury Code (1992). The Greenbury Report (1995) proposed guidelines for director remuneration, the Hampel Report (1998) focused on disclosure and best practice, the Combined Code (1998) outlined a mandatory disclosure framework, While the combined code (2010) has concentrated on the importance of the general principles which should direct board behaviours.

2.3.2 United States of America

In the USA, economic prosperity in the 1920s ended with the Wall Street stock market crash of 1929 (Clarke, 2004). This market collapse revealed manipulation in the market, internal trafficking, mismanagement and reckless violation of the rights of shareholders that led to a long recession between 1929 and 1933. As a consequence of these problems, the Securities Act 1933, as well as the Securities and Exchange Act 1934, were put in place by the US government (Clarke, 2004).

In 2001, the massive bankruptcies of Enron and WorldCom, and the relatively smaller corporate debacles of companies like Tyco, Aldephia Communication and Global Crossing, served as catalysts for change (Holmstrom & Kaplan, 2005). This corporate governance crisis reflected a need to reform US corporate governance and increase regulation, because shareholders no longer had confidence in corporate reports. Therefore, the US Congress, in 2002, responded to these corporate governance failures by enacting the Sarbanes-Oxley Act (2002), which is considered as the most sweeping reform of American business law since the 1930s (Litvak, 2007). Cornelius and Kogut (2003) argue that the Sarbanes-Oxley Act of 2002 was a compromise bill, which gained support among both Republicans and Democrats. It was intended to highlight and strengthen criminal penalties against top management who falsified financial statements, and engaged in other unethical behaviours. While the Sarbanes-Oxley Act of 2002 required the chief executive to carefully consider and thereafter sign-off the audited company reports, it also played a major influence on strengthening the powers of the audit committees and highlighting the regulatory oversight of audit firms.

2.4 Corporate Governance in Developing Countries

Previous studies have used many perspectives to determine suitable measures by which to appraise the effectiveness of CG. A review of previous empirical studies on CG reveals huge debate in recent times over the need for effective CG (Bujaki and Mcconomy , 2002). Regarding the corporate governance literature deals with the agency problem (Jensen and Meckling, 1976). The studies suggest several mechanisms that may help to mitigate the agency conflicts between managers and shareholders, and hence have an impact on firm performance. Simply, prior studies always shows that firms with effective CG experience a lower cost of financing (Ashbaugh-Skaife, Collins and LaFond 2006), higher credit ratings and hence a lower cost of debt financing (Ashbaugh-Skaife, Collins and LaFond 2007).This will increase firms performance, and thereby maximise shareholders value. Moreover, The CG mechanisms, have not worked as well in other parts of the world, particularly in developing countries (Black & Khanna, 2007). Developing countries have a poor market for corporate control (Gibson. 2003); stronger political contacts (Johnson & Mitton. 2003; GUL. 2006); more concentrated ownership ((Shleifer & Vishny. 1997) and more government intervention (Young, Peng , 2008).

One of the contributions to the CG literature investigates the relationship between CG and performance. For instance, Ararat et al. (2015) found positive relationships between firms' performance and board's demographic diversity in Turkish firms. Furthermore, Chang et al., (2015) empirical results also provide evidence that listed companies in Taiwan with higher levels of corporate governance report high firm performance and low firm risk. The CG debate has a quite short history and the literature is limited especially in Arabic countries, including, Jordan. Actually, there have been fewer studies on CG in developing countries, especially Arab countries, including Jordan, as most developing countries face wide gaps in CG compared to developed countries. Additionally, most Arab countries' firms are recognised by the fact that the existing legal system needs reform. Furthermore, the findings indicated the urgent need for an independent body to supervise the application of CG in Lebanon (Saidi, 2004).Further, Hussain and Mallin (2002) examined the status quo of CG in Bahrain, Their findings showed that:

"Bahraini companies have in placed some of the features of international CG "best practice". For example, boards are dominated by non-executive directors, and there is the separation of the roles of Chair and CEO. " (2002, p.210).

Furthermore, Hussain and Mallin (2003) investigated the dynamics of CG in Bahrain, by examining the board structures of firms. They found that NEDs dominated the board composition, and main factors affecting the appointment of these NEDs were ‘relevant skills’ and ‘business experience and reputation’. Thus, none of the firms had a Nominations Committee; hence NEDs were normally appointed by the BODs. They stated:

“Whilst Bahrain does not have a CG code per se, the firm law reforms contain some interesting provisions that will contribute to the CG framework in Bahrain.”

In Egypt, Fawzy (2003) indicated that Egypt's CG standards improved significantly, as reflected in the overall assessment of all five OECD principles .In addition, Dahawy (2008 found that the level of disclosure in Egypt was low. He also indicated that this problem may be due to lack of knowledge about the benefits of good CG. Abd-Rahman (2008) stated that there is a need for greater developments in the concept of CG to become more effective. This assured that Egyptian firm tried to apply best practices, but they did not reached the level of international standard of good corporate governance. Furthermore, Samaha (2010) indicated that there was no significant association between the existence of audit committees and the different CG disclosure kinds. Thus, training and education are possible policy recommendations in Egypt.

In Saudia Arabia, Al-Ajlan (2005) invistigated the roles and responsibilities of the BODs in the Saudi banking sector. The findings indicated the board BODs in Saudi firms seemed to fulfil the role of setting plans and guiding top management. Further, Sourial (2004) investigated the governance models of MENA countries; he found that the Arab countries in the last decade adopted a number of reforms in terms of legislation. But, the main problem was the gap between enforcement and legislative framework.

Several studies highlight the importance of CG in developing countries. La Porta et al., (2000); La Porta et al., (1998); La Porta et al., (1997) have confirmed that CG is a critical factor in firm value and stock exchange development. East Asian CG is generally recognized by Miller et al., (1998) to have initiated when Japan faced a long recession in 1990s. By the end of 1997, this collapse had spread to a number of South East Asian countries. Kim (1998) pointed that weak CG in these countries was a critical factor to the crisis. It is worth to note that most developing markets are not active markets for corporate control; Developing countries are different from developed one in areas such as corruption, transparency, liquidity and governance (Singh, 2003;, Bruner et al., 2002). Many studies confirmed that the weakness of CG is one of the most main reasons behind most of economic crisis suffered by developing countries. For instance, Singh and Zammit (2006) stated that poor CG and close relationship between banks and government which leads to such a problem.

Singh (2003) recommends that developing countries are doubtful to provide suitable solutions to CG problems. Therefore, it is essential for developing countries to develop their own standards of CG, as good CG will help firms in those countries to avoid any potential crises. Therefore it is important for these countries to encourage firms to implement good corporate governance (Klapper and Love, 2004).

For instance, in Taiwan, Solomon et al., (2003) offered empirical evidence on the manner of Taiwanese firm managers and the role of the BODs. Their results showed a clear idea about the status quo of CG in the country.

The findings indicated that the BODs constitute the most important instrument in Taiwanese CG, and the results confirmed the importance of the non-executive directors in the CG system. Moreover, their findings supported the agency theory perspective on CG as they believed the existence of non-executive directors' improved corporate accountability to stockholders.

In India, Reed (2002) assessed the Anglo-American model of CG in India He concentrate on: growth, shareholders and employment. The findings recommended that the Anglo-American mode is not suitable. He stated as follows:

"India, like many developing countries, has been moving towards the adoption of an Anglo-American model of CG in recent years. The impetus for this shift has been a combination of global political-economy pressures and problems arising out of the previous Business House model of governance" (Reed, 2002, p.266).

Furthermore, Gupta (2008) examined the practices of CG in India. He found that the Indian CG was at early stage compared to developed countries. Therefore, it needs more transparency mechanism.

Flavio and Flavio (2002) examined the status quo of CG implementations in Brazil. They stated that:

"...ownership concentration is a fundamental characteristic of Brazilian CG structures" (Rabelo and Vasconcelos, 2002, p.332).

In South Korea, Solomon et al., (2002) examined the CG system in the country. They also examined the views of directors in the country. Their findings stated that:

"Korea's financial institutions support initiatives to reform the country's CG system".

Demirag and Serter, (2003) examined ownership structure in Turkish firms. The finding showed that ownership of Turkish firms is highly concentrated in which families are the dominant shareholders. In Nigeria, Apreda (2001) explained the system of CG in Argentina and its process of reform in recent years. Rossouw et al (2002) examined CG in South Africa and made a distinction between narrow and broad CG concept. .Bryan and Carlos (2002) briefly analysed the CG model in Mexico. Carlos and Victor (2004) examined CG policy and firm performance in Portugal. They found a positive relationship between CG and firm returns. In the Philippines, Wong (2009) carried out investigation on the various reforms of CG in the Philippines after the application of the 2002 Code of CG issued by the Philippine Securities and Exchange Commission. Finaly, in Uganda, Musaali (2005) evaluated the current state of affairs after the various efforts to enhance corporate governance were made by many organisations. His study revealed that the majority of the firms did not adhere to corporate governance standards.

Further studies mainly focus on a single aspect of governance, namely, the relationship between ownership types and firm performance (Tam and Tan, 2007), role of auditors in corporate governance (Samanta and Das, 2009) , Board Structure and Firm Performance (Beverley and Shireenjit, 2009) , the impact of auditor business risk evaluation on auditor-auditee negotiation outcomes (Sahnoun and Zarai,2009) and the impact of corporate governance structures on the corporate investment performance (Orbay and Yurtoglu ,2006).

From the above discussion, it can be concluded that many developing countries have been paying increasing attention to the issues of corporate governance, especially in the Arab countries, and trying to establish CG codes. This is due to the importance of corporate governance in these countries. It is clear from reviewing the CG literature in these countries, a good number of studies have been conducted in each country. Unfortunately, there have been no studies conducted in Jordan concerning the issue of critical factor of corporate governance.

Thus, this study contributes to the body of knowledge by providing a general understanding how CG is considered in an emerging market and, particular, in Arab countries, that of Jordan. The current study has contributed to academic researchers in recognising a series of critical factors that must be carefully considered to ensure successful best practice of corporate governance system. The result of this study should enhance the current practices of critical factors for implementing best practice of corporate governance in Jordan; In essence, the results of this research will help management in identifying it.

As mentioned before, there is no research published on critical factors for implementing best practice of corporate governance, particularly in Jordan. Therefore, without taking into account these critical factors, corporate governance system definitely will be failed. Another significant contribution is that this study is the first effort to identify the obstacles that inhabit the application of good corporate governance. Above all, there are not many researches done on corporate governance in Jordan. To the extent of the knowledge of the researcher, this study is the first of its kind in Jordan. The next section will discuss formation of a public shareholding firm.

2.4.1 The Legal System in Jordan

A country's legal system generally influences corporate governance, not only laws related to corporate governance but also other laws that may impact on corporate governance practices (Luo, 2007). It has been argued that countries with a civil law system usually have ineffective stakeholders' protection (Mallin, 2004). Klapper and Love (2004) use data from 14 emerging markets to explore the differences in firm-level governance mechanisms and their relationship with a country's legal environment. They found that: 1) firms in countries with weak overall legal systems have on average lower governance rankings; 2) firm-level governance is correlated with measures such as firm size, sales growth and intangibility of assets; 3) firms that trade shares in the United States have higher governance rankings, especially those based in countries with weak legal systems; and 4) good governance is positively correlated with performance. Klapper and Love (2004) suggest that companies could improve the stakeholders' protection by increasing disclosure, selecting well-functioning and independent boards, and imposing disciplinary mechanisms to prevent management malpractice. Doidge et al., (2007) claim that country characteristics are expected to play an overwhelming role as a determinant of governance in poorly developed countries. Furthermore, they state that it is costly to improve stakeholders' protection in countries with weak development, because the institutional infrastructure is lacking and good governance has political costs. Consequently, in such countries the benefits of improving governance may be weaker because their capital markets lack depth.

In terms of Jordan , the first part of Jordanian legislations concerning firms was the Companies Act 1964, prior to that act legal issues pertaining to the establishment and registration of firms were concentrated on the civil law and

Ottoman Commercial Law which was changed and revised by the Registration of Jordanian Firms Law 1927 (Abdullah, 1980). Two kinds of firms were recognized by the Act: partnership and limited shareholding firms, in addition, the act differentiate private from public limited shareholding firms. The introduction of the Firms Act 1964 was the first legislative effort to put emphasis on the transparency of information by public and private firms.

The Companies Act 1997 is the major legislative obligation on firms, in particular public firms. The acts succeeded the 1987 Act and take into consideration the establishment of the Amman Stock Exchange. On the other hand, the Companies Act 1997 is general in coverage and content. Similar to the 1989 Act, the 1997 Act include variety of firms that can be established. These are Joint Venture, general partnership, public firms, Limited Liability and limited partnership firm. The shareholding firm registered with one condition that it must offer its stocks to the public. Furthermore, information on public shareholding firms is publicly accessible. As a result, the following parts will discuss specific conditions of the Companies Act 1997 since all public shareholding firms are subject to this act.

2.4.2 Formation of a Public Shareholding Firm

A public shareholding firms must include a number of promoters at least two who must subscribe for stocks that can be listed on Amman exchange and may be traded in line with the provisions of the Act (Article 90, para.a). The firm promoters must submit the application for the establishment of the firm to the Controller of Firms on the form selected for these issues.

2.4.3 Capital Requirements

It is important for a public shareholding firms to declare in its articles of association the amount of share capital. Article 95 of the Act stated that the capital of a shareholding firm must not be less than JD500, 000 about (£ 442, 000). Furthermore, the capital has to be divided equally into shares and a nominal value of JD1 per share. The Act explains that the firm must have equal rights for all its issued shares .Simply this means that the Jordanian public shareholding firms are authorized to issue common stocks only.

According to the article 99 of the Act, the ownership of the promoters of the public firm at establishment must not exceed 75% of the subscribed capital. The maximum ownership of promoters of the public shareholding firm is 50% of the subscribed capital in the case of financial institutions. The promoters committee should present the residual shares for subscription. Also the promoters are forbidden from subscribing in the shares presented for subscription at the formation period but they can underwrite the remaining shares after three days from finishing the subscription. It is significant to say that according to the Companies Act 1997 article 137 the existing stockholders have priority for underwriting new shares.

2.4.4 Reporting Requirements

The 1997 Act obligates the firm to arrange and circulate certain papers. The Act explains that certain documents have to be offered to the stockholders in the general meeting and a copy of the annual report must be sent to each shareholder (Article 144). In addition, the Board must disseminate the firm profit and loss account, cash flow statement, balance sheet, the auditors' report and summary of annual report of the Board of directors in detailed in a daily news paper (The Company Act, 1997: article 141).

While Article 142 offers that the board of directors must attend the shareholders annual general meeting negotiating the firm results in the last year, it is noticed that there is not a word in the Act about the content of the report. Really, the information included in the report is a matter of the desires of the firm director to give stockholders and external investors their opinion about the performance of the firm. So the report offers flexibility for the management to talk about a particular side of the firm to present a comprehensive review of the operation of the firm through the last year provided by tabular data and to mention on the things that affected the performance of the firm (Brigham and Houston, 2009). Moreover, the report may explain the main capital actions of the firm in the last year such as purchasing assets and the future plan of the firm.

Regarding the auditors' report, it is the final result of the auditing process. The report represents the auditor attitude toward the financial statements of the firm and reflects precisely the financial position of the firm (Article 192). Also the auditors' report must be presented and discussed at the annual general meeting of the stockholders (Article 171). The auditor must be careful when writing his report if the firm has kept accurate accounting records. Concerning article 193 it offers that the key responsibility of the auditor is to report to shareholders on the firm operations. Furthermore, article 197 explains that the auditor must not be entitled to participate in the formation of a firm so the auditor must be independent. As a result, Auditor should not be appointed if he /she has any business relation with the firm. In a few words, the auditor must prepare audited comparative financial statements according to the General Accepting Accounting Principles (GAAP). Undoubtedly, the statements must reflect the financial position of the firm.

Before proceeding, it is important to say that the corporate income tax rates fluctuate but not more than 35 percent. Mainly the corporate income tax rate is 25 percent or 15 percent tax rate if the scheme is a construction, mining, hospital, industrial, hotel, or transportation enterprise with a paid-up capital more than US$ 1.4 million .Precisely, financial institutions are subject to 35 percent income tax rate (Income Tax Law, 1995).

2.5 Jordanian Capital Market

Securities Law Number 23 of 1997 was the main action in restructuring the Jordan Capital Market (JCM) (JSC, 2012). In May 1997 a securities Law responsibility of operator and regulator were separated (AFM, 1999). According to the securities Law the following three financial entities have been established in Jordan capital market:

1. The Jordan Securities Commission (JSC).
2. The Securities Depository Centre (SDC).
3. The Amman Stock Exchange (ASE).

The Amman Financial Market (AFM) was officially replaced by these institutions on May 15, 1999. It is all started in1930 since the creation of public shareholding firms in Jordan (JSC, 2012). In the beginning, capital market transactions was in individual brokerage offices. Jordan seeks to create a stock exchange as a result of the rising economic value of stock markets and a lot of economic goals these markets can achieve. Establishing a bourse remained an idea in the mind of many Jordanian economists since early 1960s until it became a reality under law No. 31 of 1976. The market started with the establishment of Amman Financial Market (AFM) in order to meet the increasing demand for saving and investment in the country.

Amman Financial Market was established in 1976 and launched its first day of dealing on January 1, 1978 as a legally, administratively and financially independent public financial institution under the patronage of the Minister of Finance. The Amman Financial Market (AFM) performed a dual task; the role of a stock exchange and the role of Securities and Exchange Commission (SEC). It acted as a government vehicle for regulating and operating the securities market. According to the Law, the objectives of Amman Financial Market (AFM) are to mobilize savings by encouraging investment , serve the interests of the national economy, regulate and control the issuing of and dealing in securities to ensure the security and speed of transactions to protect the interest of small investors(JSC.2009) .

The Amman Financial Market is a thin market. Thin securities market is a market in which there are a small number of offers to sell, a small number of bids to buy, large spreads, high price volatility and low liquidity (Huber, 1997). Drake (1977) stated that thin market is a market with a limited number of volume and variety of stock trade, it is a market in which there are a low number of buyers and sellers. In general, prices in thin markets are more volatile than other markets with high liquidity because of limited number of transactions taking place for that the securities prices affected significantly (Gandhi et al. 1980). The trading volume is quite small in thin markets and when it is traded it is often traded on low volume (Roux and Gilbertson, 1978; Solibakke, 2000).

The circumstances in developing capital markets such as Amman Financial Market (AFM) might represent a barrier to use it as a main alternative to finance (El-Khouri and Hmedat, 1992). These barriers might be categorized into two groups. The first one consists of general variables such as the political and economic fluctuation. The second one consists of social practice such as financial training and the general level of education Therefore, there is too much risk because there is not a lot of information available for the investors, as a result of this the cost of getting external finance will be very high. In practice, Jordanian firms prefer internal source of finance to finance their investment rather than seeking external source of finance.

Finally, as a result of the global financial crisis, nearly all of the Arab stock exchanges went down. The international crash affect on the international exchanges as well. The of large financial institutions attribute to the huge losses resulted from mortgage and the financial products related to those mortgages. Thus, the mortgage collapse worsened beyond its source in the United States of America. This produces credit crises and signs of recession emerged in the economies of developed countries. Arab exchanges were also exposed to the international crash. Generally, the majority of the Arab stock exchanges declined. Clearly, during 2008, The Arab Monetary Fund composite index went down by 55% (AFM, 2009).

Table 2.2 shows the performance of Arab Stock Exchanges during the period 2008. It appears that nearly all Arab stock exchanges have a bad performance by the end of year 2008. It showed that the prices declined sharply in Dubai Market compared to other markets marking a decline of 72.4%. Next, the Saudi Stock Market dropped by 57.0% followed by the Egyptian Market with a 56.4% decline; Abu Dhabi Securities Exchange with a decline of 47.5%; followed by Muscat Exchange Market with 39.8% decline . Stock prices dropped in Casablanca Stock Market, Kuwait, Bahrain, Palestine, Doha, Amman, and Bahrain Stock Exchange Market by13.5%, 38.0%, 24.9%, 16.2% 28.1%, and 34.5%, respectively. It is worth to note that Tunis Stock Exchange Market is the only Arab stock exchange Market that did not show a decline in prices, experienced an increase of 10.6 and Dubai Financial Market performance was the worst among Arab stock markets.

Table 2-2: Performance of Arab Stock Exchanges (2008 -2009)

Market	Performance in 2008	Performance in 2009
Tunis Stock Exchange	10.65	48.38
Casablanca Stock Exchange	-13.48	-4.92
Qatar Exchange	-28.12	1.06
Muscat Securities Market	39.78	17.05
Amman Stock Exchange	24.94	-8.15
Abu Dhabi Securities Exchange	-47.49	14.79
The Egyptian Exchange	56.43	35.08
Kuwait Stock Exchange	-38.03	-9.99
Saudi Stock Exchange	57.02	27.46
Bahrain Stock Exchange	-34.52	-19.17
Muscat Securities Market	-39.78	17.05
Amman Stock Exchange	-24.94	-8.15
Dubai Financial Market	72.42	10.22
Palestine Securities Exchange	16.24	11.62

2.5.1 Jordan Securities Commission (JSC)

The Jordan Securities Commission (JSC) is a government agency joined with the Office of the Prime Minister but it has administrative and financial autonomy in order to improve its independence and efficiency in achieving its goals (JSC, 2009). The JSC started its duties in September 1997. The JSC is managed by a Board of Commissioners which consists of five members including the Chairman and Deputy Chairman. The member should be Jordanian natural person experts and professionals in securities (The Securities Law, 1997: article 8).The Securities Law forces each member of the board to declare in writing to the commission directly upon assuming his duties any securities owned by him or those at his disposal or at the disposal of any relatives, as well as any shares in financial services firms owned by him (The Securities Law, 1997: article 10). Furthermore, the Law forbids a board member from practicing any other job, including occupying a position in any public entity. Also Board members shall not affect decisions in public institutions, or acts in a counselling capacity to them (The Securities Law, 1997: article 11). These limitations are intended to keep in mind the sensitivity and value of the commission's role in order to let the commissioners accomplish their tasks to avoid personal profit and to stay free from any external control.

The Jordan Securities Commission, in cooperation with capital market institution, prepared corporate governance code for firms listed on the Amman Stock Exchange. The code has been offered to a number of referees for review, and their comments and suggestion have been taken into account. The Jordanian corporate governance code was approved by the JSC and was implemented in 2009. This is regarded as a qualitative efforts for Jordan in the field of improving transparency over public firms, and one that protect the rights of all participants in these firms. This code, which includes the principles of corporate governance of shareholding firms listed in the ASE, has been prepared in light of the improvements in the country in all fields and depended on the role of the JSC to develop the capital market.

In terms of the implementation process of the Code, it was decided that the suitable manner would be that of "comply or explain". This means that firms will be dedicated to follow the Code; nevertheless, in case any of the principles of the Code is not implemented, the firm must give the reasons for not doing so obviously in its annual report. This approach has the benefit of offering flexibility in the implementation of the Code. Moreover, it gives enough time for the firms to adapt to the requirements of the Code. Thus, it will be possible to apply them completely but gradually.

2.5.2 The Securities Depository Centre (SDC)

The Securities Depository Centre (SDC) of Jordan is one of the most important institutions in Jordan’s Capital Market as it holds the ownership register of all issued shares. It was formulated under the Securities Temporary Law Number (23) of 1997. The Securities Law of 1997 separated the functions of the Amman Financial Market (AFM) and created the Jordan Securities Commission (JSC), the Amman Stock Exchange (ASE) and the Securities Depository Centre (SDC). SDC started operation in May 1999 as a private non-profit organization independent financially and administratively and run by a board of director from private sector. SDC seeks to build a good environment for investment and increase the settlement system efficiency in the kingdom. It has employed automated registry and settlement systems that are in accordance with international standards and best practices as well as with G-30 recommendations .Execution of these important systems will offer additional security to local and foreign investors regarding ownership. Furthermore, the system is efficient, and clear which will increase investor confidence in the Jordanian CM (SDC, 2009).

2.5.3 The Amman Stock Exchange (ASE)

The Amman Stock Exchange (ASE) was created in March 1999 as a private non-profit organization with administrative and financial independence and it is not subject to the Firms Law. By law it shall not engage in commercial activities, have a stake in any scheme or obtain or possess any securities. ASE is the only entity entitled to work as a formal market for trading securities in

Jordan. The securities listed on the Stock Exchange have to be traded through transactions between financial brokers on behalf of customers (The Securities Law, 1997: article 24, para.a). ASE membership consists of financial brokers and its General Assembly consists of members who have paid their subscription and annual membership fees. Each financial broker has one vote in the General Assembly's meeting (The Securities Law, 1997: article 24, para.a). Board of Directors manages the Stock Exchange and the Executive Manager. Manager is appointed by the Board of Directors (The Securities Law, 1997: article 25).

The Amman Stock Exchange launched the electronic trading system. The electronic system improves and accelerates trading in securities while supplying clearness and security for traders and investors. The system follows all selling and buying orders and matches the supply and demand for securities. The application of the electronic trading system offers great flexibility and different information to the broker. This action will facilitate the carrying out of transactions with fairness, speed and without any kind of difficulty (ASE, 2009). The ASE has always been updating and improving its technical infrastructure to confirm its systems' capacity to be in line with the increase in trading volumes. Accordingly, the ASE completed most of the tests required for employing the new version of its trading system namely NSC900.

Having discussed the structure of the Jordan capital market and main activities of each of three entities, other significant point of interest is foreign investment which is presented in the next section.

2.6 Foreign Investment

Jordan launched the investment promotion law in 1995, modified in 2000. In line with this law, foreign investors are allowed ownership in most sectors (Youngblood-Coleman, 2008). Consequently, Jordan succeeded bringing JD 1.8 billion of foreign direct investment in 2006, which means an increase of 143% over 2005 (JIB, 2008). Continuing its efforts in developing the investment environment, Jordan created the first Qualified Industrial Zone (QIZ) in 1998. The Qualified Industrial Zone (QIZ) is an area that offers duty-free entrance to the US market for the products manufactured in the zone. In 2006 the exports from QIZs revealed US$ 940 million which means an increase of 17% over 2005 (DOS, 2007). At present there are 13 Qualified Industrial Zone (QIZ) in Jordan including more than 50 factories (JECB, 2008). Also, the government launched the Aqaba Special Economic Zone (ASEZ) in 2001. The ASEZ offers high class support services and facilities and is one of the biggest free zones in the region (JIB, 2007). The ASEZ at the end of 2006 was able to bring investments of about JD 4.3 billion (Benson, 2008).

Simply, government of Jordan keeps on trying to attract foreign investment. The launch of improvements in economic laws and regulations in recent years had important influence on the level of foreign investments in the capital market. In 1996 the government approved legislation intended to build an investment environment to attract foreign and local investments. These legislations are the by-law of non-Jordanian investments and the Investment Promotion Law, in addition to the Income Tax Law. The Investment Promotion Law requires that the non-Jordanian investors to be treated in the same way as the Jordanian investors in Jordanian schemes whether through shareholding, ownership or partnership. By-law of the non-Jordanian investments is the most important legislation regarding investment by non-Jordanian investors. This allows any non-Jordanian investor to own 100% of any scheme or to share in any other economic actions in the Kingdom except some sectors which not allowed for them to own more than 50% of any scheme in the sectors such as construction contracting, land and air transport, trading and trade services, mining, banking and insurance, agricultural products and telecommunications (ASE, 2009).

The Regulation of Promotion of Non-Jordanian Investments was issued in 1997, which eliminate the ceiling of 50% of the non-Jordanian ownership and allowed them to own up to 100% of any scheme in any sector except sectors of trading and trade services, mining and construction contracting (ASE, 2009). The most significant progress about foreign investments in Jordan was the Regulating Non-Jordanian Investments Regulation number 54 for the year 2000 which eliminated the ex-regulation for the year 1997 regarding restrictions . According to this regulation any non-Jordanian investor is allowed to own any project wholly or partially or may participate in any percentage, except in some sector which the non-Jordanian investors ownership shall not exceed 50% of the capital of any project (Regulation no.54, 2000: article 3).

In the light of these developments, the level of non-Jordanian investments reached the highest level of 49.0% of the total market capitalisation of these companies in 2008. Table 2.3 represents the total percentage of the total market value of ownership of non-Jordanian investors for the firms listed in Amman stock exchange by sector between 1999 and 2008.

The non-Jordanian ownership in firms listed in the Amman Stock Exchange by the end of 2011 represented 47% of total market value. At the sector level, the non-Jordanian ownership of the industry sector in 2008, 2009 recorded the highest level 53% and 53% respectively. On the other hand, table 2.4 shows the total value of shares bought by non-Jordanian investors of listed firms during 2008 JD 4219 million, while the value of shares sold by them was about to JD 3910 million (CBJ, 2009).

Table 2-3: % of Non-Jordanian Ownership of Listed Companies by Sector (1999-2011)

Year	Financial	Services	Industry	General
1999	56.647	13.977	30.483	43.099
2000	55.181	21.257	30.213	41.672
2001	47.426	19.676	27.872	38.507
2002	47.564	26.792	26.093	37.430
2003	46.275	24.285	30.098	38.844
2004	47.441	25.593	36.791	41.264
2005	49.770	26.185	38.088	45.043
2006	47.733	36.553	43.709	45.531
2007	50.733	36.152	51.881	48.947
2008	52.102	33.811	53.347	49.247
2009	51.883	32.337	53.137	48.883
2010	57.4	14.2	55.2	46.1
2011	58.7	14	56.7	47

Table 2-4: Shares Traded By Non-Jordanians on the ASE (1996-2011) (In JD Million)

Period	Total Buying	Total Selling	Net Investment
1996	26,445,212	17,923,594	8,521,618
1997	100,499,724	43,735,612	56,764,112
1998	204,989,118	82,382,672	122,606,446
1999	94,277,777	78,806,529	15,471,248
2000	53,015,845	64,848,920	(11,833,075)
2001	104,486,389	211,990,826	(107,504,437)
2002	233,384,182	232,501,490	882,692
2003	281,085,270	199,195,647	81,889,623
2004	380,336,550	311,379,947	68,956,603
2005	2,152,280,127	1,739,246,534	413,033,593
2006	1,995,091,126	1,814,482,149	180,608,977
2007	2,825,297,394	2,359,041,344	466,256,050
2008	4,219,835,535	3,910,020,357	3.09,815,179
2009	2,135,432,525	2,139,209,490	3,776,965
2010	1036	1051.2	14.6
2011	555.8	477.2	78.6

2.7 Summary

The literature related to corporate governance has been reviewed in this chapter. Many aspects of corporate governance have been discussed such as corporate governance concepts and models. The survey of the literature has shown that there is no research published on critical factors for implementing best practice of corporate governance, particularly in Jordan. A large number of studies have examined the subject of corporate governance in more than one country, while others have focused on a particular mechanism of corporate governance. In addition, the majority of previous studies, focused on examining corporate governance practices by using single methodological approaches as the qualitative approach or the quantitative approach.

The country's legal and organisational structures have been revised, and significant measures have been taken to restructure, liberalise and increase the openness of the national economy. The capital market has made a significant, qualitative transition to operating according to international standards. In regard to the legislative reforms, the Amman Stock Exchange formed a committee to follow up the corporate governance issues. The committee prepared Corporate Governance Code for listed firms to enhance good governance in these firms.

CHAPTER THREE

3 CHAPTER THREE: THEORETICAL FRAMEWROK

Chapter two emphasized that in recent years, both practitioners and academics have devoted huge efforts towards improving CG practices (Gompers et al., 2003; Ammann et al., 2011; La Porta et al., 2000; Shleifer and Vishny, 1997). Therefore, CG now is on the agenda of most developing countries including Jordan. Scandals that resulted in the collapse of high profile firms such as Enron in the USA, Barings Brothers and Polly Peck in the UK (Pickett, 2007) and the economic financial crisis that wiped out a number of Asian markets in 1997 have led International bodies, such as the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and World Bank (WB) to focus on improving CG around the world (Solomon and Solomon, 2010; Dalton and Dalton, 2011;Fan, et al., 2011).

Many economies have been encouraged to employ steps to improve standards for CG. Moreover, firms have to learn how to identify the critical factors (CF) of corporate governance implementation to recognize the benefits and to avoid failure. For these reasons, there is an urgent need to identify the critical factors (CFs) in CG implementation to avoid any disaster. Clearly, firms should be aware that without taking into account these critical factors, corporate governance system definitely will be failed. Thus, this chapter investigates the most important CFs of CG. It draws on the work of the European Centre for Best Practice Management (ECBPM) which aims to obtain best practice in the management and supervision of firms.

Corporate governance has been examined from a range of perspectives and therefore it is vital to review the theories that have been adopted. This chapter provides a summary of theories used in the most previous studies on CG, such as agency theory and economic theory. It will also discuss the agency theory and how this provides insights into the origins of agency conflicts and the ways in which CG systems may be employed to resolve such conflicts. Therefore, this chapter outlines the main theories of CG but first of all, it set the framework for the current study that is adopted to interpret the study findings.

The remainder of the chapter is structured as follows: Section 3.2 presents an overview of the key CG theories Section 3.2. Present CFs of CG, then the chapter ends with a summary in Section 3.4.

3.1 Theoretical background

Contemporary listed firms follow a pattern which has separation of ownership from control. Because of the large size of the firms, shareholders cannot manage them directly (Berle and Means, 1968). As an alternative, the control of firms is devoted to a managerial team, recognized as an agent. Thus, there will be conflicts of interest between the shareholders and managers; these conflicts of interest may affect on performance of the firm. Managers should work to increase shareholders value, by adopting decisions which are consistent with the shareholders ‘interest. However, the separation of ownership from control may lead to divergence between mangers and shareholders interest (Jensen and Meckling, 1976). To align managerial decisions with shareholders interest, shareholders may watch managers’ actions. At the same time, to encourage managers to align their decisions with their interest, shareholders can offer incentives For instance, shareholders will grant stock to managers (Kim et al., 2010). Thus, their benefits will be directly associated with performance of the firm. Hence, managers have a motivation to increase firm performance. The problem arise from the conflict of interest between mangers and shareholders, are agency problem (Jensen and Meckling, 1976). Thus, CG is a mechanism that may align interest of managers and shareholders (Clarke, 2007).

3.2 Theories of Corporate Governance

The development of corporate governance, as seen earlier, is a worldwide issue, concerning law, culture and capital structure (ownership), as well as relations between firms. Corporate governance may, therefore, be applied differently from one region of the world to the next. Indeed, certain practices may be more vital to some countries than to others. And in an individual country, they may be more appropriate at different times depending on the stages of development (Mallin, 2007).

However, the main corporate governance problems are based upon the conflicts of interest between various parties, the shareholders and management of company on one hand and with other stakeholders on the other hand. Therefore, the conceptualisation of corporate governance has been driven by two theories. First, the agency theory addresses the relation between the shareholders and the management of a company based on Jensen and Meckling (1976). Secondly, the stakeholder theory, building on Freeman (1984), examines the relation between multi-parties inside and outside the company.

The seminal work of Jensen and Meckling (1976) proposed a theory of the firm based upon conflicts of interest between different contracting parties namely, debt holders, corporate managers and shareholders. A huge literature has developed to clarify both the nature of these conflicts and the ways by which they may be resolved. Furthermore, there are various challenging analyses on the nature of the corporate governance problem with recommended solutions to deal with it. These analyses have quite a lot of views on what is wrong or seemed to be wrong with the system. Blair (1995) recognized some key perspectives for the corporate governance problem namely, agency theory, stakeholder theory and market myopia theory. Later, Keasey et al., (1997) added the abuse of power theory. Others including the resource dependence theory, property rights approach and stewardship theory will be considered in this section. The make-up of the different perspectives can be likened to benchmarking (Zairi, 1992).

3.2.1 Agency Theory: The frame work of the study

At the present time, as a result of the complexities of the world of business with its ties relationships, as well as the common trend of separation of control and ownership, agency theory has been developed to clarify the relationship whereby the principal or the owner, one party, gives power to another party, the agent or management (Williamson, 1985; Gray and Jenkins, 1993;). In such cases, the agent should run the firm's assets and liabilities in a way that achieves the owner's goals.

The extraordinary economic growth after the Second World War, especially in developed countries, led to the formation of multi-national companies and joint ventures. The emergence of such companies has shaped economies and businesses as well as our corporate environment. In every company, the shareholders are the owners of the company, whereas the directors and managers are to control all business activities and to ensure that the company is operating in the interest of its shareholders (owners). Indeed, directors and managers have high influence on company operations as well as on the decision regarding the projects to be undertaken. On the other hand, shareholders, who are the owners of the company, delegate the authority to the managers to exercise all relevant duties on their behalf. In this respect, the owners (shareholders) of the company are the principal and the directors and managers are the agent (Mallin, 2007). Shailer (2004) argues that apart from attending the annual general meetings, shareholders do not normally participate in company management or in the control of the company's activities.

Jensen and Meckling (1976, p. 5) define "an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent”. They discuss and clarify the impact of the separation of ownership from company management, which, in turn, leads to the development of ‘agency theory’ and the agency problem. Agency theory creates a relationship between two parties, whereby the owners are known as principals, who contract specialists (agents) to manage the business on their behalf. In other words, the shareholders are the owners of the company, whereas the directors and managers are there to ensure that the business is operating in the interest of its shareholders (owners) (Shleifer and Vishny, 1997). In this regard, company directors and managers have high influence on company operations as well as the decision on the projects to be undertaken (Staikouras & Staikouras et al., 2008).

In some cases, the agent (management) does not necessarily act in the best interests of the principal (shareholders) and, as a result of this relationship, there arises what is known as the ‘agency problem’ (Solomon & Solomon, 2007). The agency theory suggests that most of the times, the manager's decisions are not necessarily directed toward the single aim of maximising the value of the firm. Instead, they have many other goals which align with their own interests. In addition, the principals do not have access to all types of information. This causes information asymmetry between the agent and the principal because they will have different levels of information access (Mallin, 2007). For instance, the shareholders' ability to control all managers' decisions and the activities taking place in the company may be limited by the rights or interests of other stakeholder groups, which also need to be considered. This control may also be limited to a decision-making level. Thus, shareholders may not have, for example, the right to monitor the methods employed and the reasons why these were used in recording transactions. Hence, agency problems arise (Brenna, 1995) because of the impossibility of the agent to track all the decisions and actions that are likely to affect both his own interest and the interest of the principal.

The conflicts of interest between the principals and agents lead to ‘agency costs’. Jensen and Meckling (1976) classified the agency costs into three main types: first, monitoring costs, which are incurred by shareholders in controlling and ensuring managers’ activities and behaviours are in line with their interests; secondly, bonding costs, which are incurred by managers to indicate that shareholders’ interests are being protected and fulfilled; and thirdly, residual agency costs, which are incurred in case bonding and monitoring does not eliminate the conflict of interests and information asymmetry. Therefore, the corporate governance concept came about as a result of the agency problem, which arose when the company owners were separated from the decision-making process (Solomon, 2007).

Hart (1995) points out two reasons why corporate governance issues must arise in an organisation. The first reason is the presence of conflict of interest or agency problem between the owners (shareholders) and company management (managers or directors). The second reason is that conflict of interest or an agency problem cannot be solved through the use of contract. Hart (1995) gives several reasons why solving an agency problem through the use of contract might not always be possible. In particular, all business events and transactions may not be done through the use of contract. In addition, there are costs associated with negotiating contracts and enforcing them known as agency costs. Agency costs would be extreme if shareholders tried to ensure that all managers' decisions and actions are aligned with the shareholders' interests.

Shleifer and Vishny (1997) argue that the adoption of corporate governance practices push directors and managers to plan and make decisions which will align their interest with those of the shareholders and help increase share value. Moreover, Walsh and Seward (1990) state that there are available governance mechanisms that might be used to assimilate the interests of shareholders with those of management. One of the mechanisms would be associated with individual performance; managers' rewards reflect performance level. Another mechanism is to reward managers by giving them the opportunity to subscribe shares at a lower price. In this way, they encourage them to go for projects that will increase the shareholders' value. Shleifer and Vishny (1997) conclude that an effective corporate governance system may be driven by the legal consideration of all types of investors as well as the presence of concentrated ownership. Firms need a proper governance to protect the interests of their shareholders. In addition, small investors (minority interest) need to be legally protected against the unethical practices of large investors.

As result, strong legal protection of especially minority shareholders' interests may reduce the agency problem, while poor legal protection of shareholders' rights may increase the agency problem, which leads to an increase in agency costs (Claessens, 2003). However, Mallin (2007) pointed that in many countries there is no strong law protecting minority shareholders, especially those which use a code of civil law as opposed to the common law.

In short, to reduce agency problem, agency theory provides a system where the board of directors will be more involved in formulating the form's policy and assuring that the top management is acting in possible efforts to serve the shareholders' interest. Thus, agency theory provides the board of directors with a mechanism to protect the shareholders' wealth and eliminate the conflict between the firm's owners and its management. Also, agency theory is used to explore association between ownership and management of family business (Westhead and Howorth, 2006). Actually, in Jordan, reformers began trying to mitigate the power of family-owned business groups. For instance, in Jordan, and indeed in most Arab economies, there is no separation between ownership and control. Owners control their firms even when they are listed (Saidi, 2004). Since ownership in emerging economies including Jordan is typically heavily concentrated in family businesses (Al-gharaibeh et al., 1997; Zeitun and Tian, 2007) the only way to stop majority shareholder opportunism is by introducing minority shareholder protection laws.

3.2.2 Economic Theory

Economic theory suggests that a firm is a tie of contracts between the many parties. Thus, the need for CG framework appears as a result of the presence of incomplete contracts in the markets. The market failure increased this need. Incomplete contracts among many parties in the firm as shareholders and managers influence the value of a firm in a negative way. Effective contract maintain the interest of shareholders by offering the ways to negotiate contingencies in the contract (Aghion and Bolton, 1992; Nam and Nam, 2004). Hence, the right procedure of contracting between different shareholders and managers can mitigate the agency problem, then increasing shareholders value.

3.2.3 Resource Dependency Theory

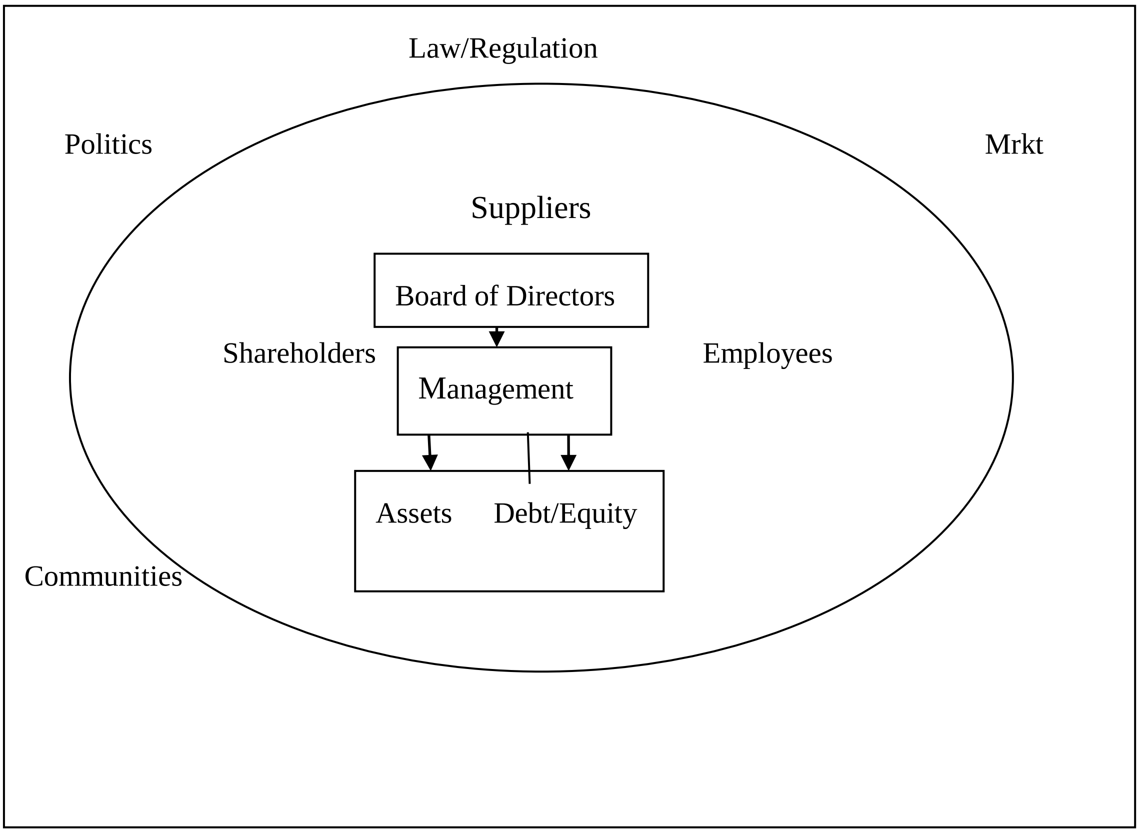
Resource dependency theory is interested with allocation of power over the firm (Zahra and Pearce, 1989. The theory sates that the ability of external groups to control resources of the firm gives those groups power over it. This implies that if a strategic external partner posses resources critical for the firm's success the foreign partner will attain more power with regard to the internal partner. Thus, this theory guide to the result that partners' ability to control a firm depends on the size of their equity holdings and the importance of the resources they bring to the firm (Child and Yan, 1997).For example, Jordan is one of the MENA countries where Jordanian partners and Jordan markets cannot provide highly sophisticated resources required by the firms. Hence, this will bring them to become highly dependent on their foreign partners for such items especially like technology.

3.2.4 Stakeholder Theory

The stakeholder theory explored by Freeman in his 1984 work, "Strategic Management: A Stakeholder Approach". Freeman is known as having built a very strong base for the improvement of this theory (Solomon, 2007). According to Freeman, stakeholders can be defined as “all people who have interest in entity and, therefore, can be affected by its performance and decisions (Freeman & Vea, 2001). In other words, stakeholder theory seems to include a broader group rather than shareholders, as employees, customers, community, government, suppliers, and others (Letza, et al., 2004). In the traditional principle of CG, the responsibility of director’s is primarily concentrated on shareholders’ interests which is maximising shareholders' value. Hence, in the modern principle of CG, a set of legal market mechanisms are create engaging firms to consider all other interest groups connected with ethical ,environmental and social aspect of the firm (Pease & Macmillan, 1993). Collier (2008) confirms that stakeholders have important influence on the firm and, for that they require appreciation from the managers and executives. Actually, stakeholder theory helps the firm to protect interests by extending the firm responsibility to a broader range of stakeholders (Simmons, 2004). This means that a firm's aim should be comprehensive to all people involved in its operations and who can influence or be influenced by its failure or success. This includes shareholders, suppliers, government, investors, community, employees, creditors and customers. These may have financial, social, economical, environmental and technological effects (Clement, 2005).

Collier (2008) classified stakeholders into two categories, primary and secondary. While primary have a direct relationship in the form of a contract with the firm such as creditors, secondary do not have a direct connection with the firm. On the other hand, the secondary may still be influenced by the firm's operations. Gillan (2006) gives a wider view of the firm and its governance contrary to the narrow view of the firm as compromise of the firm board, firm managers, and shareholders, as shown in Figure (1).

Figure 3-1 Stakeholder in the Corporate Structure



Source: Gillian (2006, p.20)

According to Clement (2005) firms are under continuous pressure to review their CG practice by including all stakeholders. It is worth to note that many firms thinking to include on their BOD people chosen from stakeholders such as suppliers, employees, customers, and community (Luoma and Goodstein, 1999). Moreover, the OECD principles confirm that "*The CG framework should recognise the rights of stakeholders established by law*" (OECD, 2004, p. 12).

In short, agency theory is interested with the rights of shareholder and the separation of ownership from control. On the other hand, stakeholder theory further extends the goal of the firm from maximising shareholders' value to wider outcomes to a scope of stakeholders and emphasises firm efficiency in a social perspective (Letza et al., 2004).

3.2.5 Market Myopia Theory

Market myopia theory does not confirm that the purposeof the firm should be to maximize shareholders' Value. Keasey et al., (1997) show that followers of this theory absolutely call to incorporate other stakeholders. The market myopia theory recognize short-term as the main problem in the Anglo-American CG system (Charkham, 1994, Skys, 1994). They argue that the market creates too much pressure on managers to concentrate on short-term stock price profit at the expense of long-term growth such as R&D. According to them, stock price are not a dependable guide to the expected value of the firm. Furthermore, this theory suggests that accounting should act as regular pressure on firms to increase both the quantity and quality of disclosure (Adhikari and Tondkar, 1992).

Cook (1989) mentioned myopia theory proposes that the force for disclosure is to mitigate the required rate of return (rrr) and uncertainty risk. A lower rate of return means a lower cost of capital and the higher the stock price and this will enhance the image and reputation of the firm (Gray and Roberts, 1989).

3.2.6 Abuse of Power Theory

The abuse of power theory, like the agency theory approaches is based on the idea that the objective of the firm is to increase shareholders' value. The followers of this viewpoint argue that the dilemma with the CG is that it gives excessive power to the management team (Hutton, 1995). Followers propose that BODs are controlled by executives that have too much autonomy to apply their own agenda. This approach considers conservative control systems as inappropriate to stop self-interested manners. Followers of this view build their discussion on managers pay where there have been discussions and many facts, however unsure on its need of sensitivity to shareholders' value. They propose legislative intervention to weaken the position of managers as the solution to this dilemma (Kay and Silberston, 1995).

3.2.7 Stewardship Theory

Davis et al.,(1997) affirmed that according to this theory executives are excellent stewards of firm assets, the traditional thought of CG holds that the managers, on behalf of stakeholders , really want to do a excellent work by being excellent stewards of the firm assets, not to have a conflict of interest or make gain without regard for stakeholders (Clarke, 2004).Interestingly, while stewardship theory propose that shareholders' Value are increased by sharing the roles of board chair, agency theory propose that interest of shareholders increased by the separation of ownership from the board chair,

3.2.8 The Property Rights Approach

In its exclusive meaning, property "*refers solely to the title, interest or right, and resources could not be recognized as property any more than they could be known as title, interest or right,").* In contemporary corporations, it is repeatedly believed that the distribution of stockholding combined with executives rewards in a proxy strive have led to a increase in the power of executives and have decreased their dependence on the shareholders (Furubotn and Pejovich, 1972).Therefore, executives are able to achieve their own objectives within assured limits rather than the interest of shareholders, specifically, maximisation of profit. The property right identifies the nature of the rights, which a person may hold, to apply of resources, to the profit created, and to the mobility of those to the other people (De Alessi, 1983:3)).

With regard to CG, the theory clarifies how shareholders attain the right to select and gain from the best firms governed. If their some interests are not met by the directors, the theory gives them the right to transfer their capital to more suitable firms where they are governed in proper way. Particularly, the theory gives a motivation to the BODs to monitor of the firm’s executives to retain the existing shareholders rather than transferring their capital to other firm. Thus, the theory is complementary to agency theory and helps to clarify how chiefs can apply sanctions.

3.2.9 Accountability Theory

CG code of practice is critical to the efficient financial market in any country. It sets the guidelines how to run the listed firms in the market. Clearly, CG plays as an accountability instrument for firms in respect of its relationship with stakeholders. Particularly, managers are accountable to shareholders and other stakeholders (Solomon, 2010). Thus, the firm must report to both shareholders and other stakeholders about the firm (Solomon, 2010). Certainly, reports give assurance to different parties regarding issues of concern to them.

For example, the BODs need to ensure that the performance of the firm has improved and to what extent the goals have been accomplished. While, it is very important for the shareholders to ensure the efficient use of assets; owners may want to find signs in the firm indicating to an increase in price of the share, the financial situation and its ability to repay the loans, which may concern suppliers and creditors. In contrast, employees interested with ability of the firm to offer financial security and a safe working condition to them, while the community will interested with the services offered by the firm and how far concerns with the concise and environmental aspects of its activities.

Regarding relationship with stakeholders in a firm it is not a firm option; it is compulsory by a firm to meet its responsibility towards the community in which it operates. Thus, CG can be seen as a legal contract between interested parties and the firm, imposed by constitution. For that reason, CG code of best practices aims to ensure that there is no misuse of the asset of the firm (Stewart, 1984). To attract international investor and keep existing shareholders, it is important for both governments and firms to meet the requirements of accountability and transparency (Monks and Minow, 2004; Colley, 2003). Furthermore, this will satisfy all interested groups to avoid external intervention (Gray and Bebbington, 2000).

Gray and Bebbington (2000) declare that firms' major concern with respect to CG is with issues related to financial affairs; there are some stakeholders who have rights to information on many other issues, like environmental and social aspects. The thoughts to increasing accountability are dependent on agency relationship. Therefore, shareholders would be with increasing accountability in ways that could make managers more accountable to them, while managers' would prefer less accountability, as accountability aim to increase their responsibility to stakeholders including shareholders and restrict their independence (Perks, 1993).

In short, majority of the MENA countries including Jordan have set guidelines which are in the mature phase and all firms required to comply with such code of CG. Nevertheless, in Jordan, it is worth to note that there is code of CG for listed firms that are recently introduced. This code of CG have not yet tested and benchmarked against the code of CG in the developed world.

3.3 Critical Factors of Corporate Governance

After Enron's and WorldCom scandal, some writers criticized the auditing profession. It is identified that many parties involved in their financial collapse. Thus, many shareholders have lost confidence in business, and they have investigated the efficiency and the effectiveness of CG systems. It is worth noting that the primary goal of CG is to create a balance of power-sharing among shareholders, directors, and management to enhance shareholder value and protect the interests of other stakeholders. Hence, the efficiency and effectiveness of CG can be measured by its influence on the agency costs and thereby a firm's performance. Therefore, the critical factors of corporate governance will theoretically be analyzed in term of their impact on the agency costs and then value. For that reason, firms need to adopt critical success factors if they are to achieve business excellence and sustainable best performance (Zairi, 2005). Jarrar and Zairi (2000) stated that best practice management is increasingly being recognised as a powerful performance improvement effort for processes, business units and for entire firms. Therefore, the following sections examine ten critical factors of corporate governance based on the work of the European Centre for Best Practice Management (ECBPM).

3.3.1 Constitution

Solomon et al., (2003) offered empirical evidence on the manner of Taiwanese firm managers and the role of the BODs. Their results showed a clear idea about the status quo of CG in the country. The findings indicated that the BODs constitutes the most important instrument in Taiwanese CG .Therefore, constitution factor as one of the CFs of CG suggests that the effective corporate constitution serve as a mechanism to align interests of shareholders with those of managers, reducing the costs of agency conflict between them and accordingly, enhancing the firm performance and thereby its value. This may be attributed to view that corporate constitution reduces the monitoring costs that the firm spends to control management, restricting its ability to use available cash flows for their own interest and consequently increasing value.

The effective corporate construction is concerning with the Board size, role duality, etc. The influence of Board size of firm's performance is vague. Dalton et al., (1999) argue that BOD with too many members could be beneficial as it increases the number of the expertise. Inconsistent with argument, Eisenberg et al., (1998) and Fernandez et al., (1997) found that large Boards lead to difficulties in coordination and control which in turn harming the efficiency of firm’s activities and thereby their value. Yermack (1996) supports Eisenberg at al., (1998) and Fernandez et al., (1997). He founds that the smaller board size is better for performance than lager size. The reason behind that is mainly attributed to the fact that smaller boards mitigate the possibility of free riding and therefore has the tendency of increase firm performance, additionally, small Board can help enhance their performance and control (Jensen, 1993). While, the larger size will be accompanied with an increase in managerial expenses which minimise the cash flows available to shareholders and consequently reducing value.

With respect to duality, it has been argued that the lack of independent directors makes it hard for board members to respond a failure in top management team (Jensen, 1993) where firms facing a higher costs or agency problem when the same person occupies the two positions. This supports Fama and Jensen (1983) who argue that the concentration of decision control in one person reduces board’s effectiveness in monitoring executive directors. Carpeto at al. (2005), give evidence supporting Fama and Jensen (1983) and Jensen, (1993) that the decision to separate two positions connected with positive returns. Furthermore, the duality between them is a key indicator of weak CG. It is clarifies that the separation of CEO/Chairman could create a better performance and mitigate the agency problem between shareholder and managers which in turn maximizing share value.

In details, the constitutional system of governance grants shareholders the power to control their firm. The main idea of corporate constitution is that the interests of shareholders should be the main concern of BODs. The BODs are a link between the shareholders and managers. Jensen (1993) clarifies that the role of the board is to set the rules of the game for the CEO. However, the literature has classified three sets of interrelated roles played by the boards in modern firms: control strategy and service. (Zahra and Pearce, 1989; Judge and Zeithaml, 1992; Pearce and Zahra, 1992; Jensen, 1993; Stiles and Taylor, 2001). The literature articulates the main roles of the boards, namely, the monitoring role and the strategic role of the board.

The board’s involvement in strategic role has been the primary concern of many studies (Demb and Neubaura, 1992; Goodstein et al., 1994; McNulty and Pettigrew, 1996; Combined Code, 2010). Presently, following pressure forced by different parties in different economies have urged boards to give more attention to their role regarding strategy formulation and involvement.

Research on the BODs recommends that the emergent strategy and its implications for board involvement have received little interest in the debate on the strategic roles of the board (McNulty and Pettigrew 1999; Stiles and Taylor 2001). From the literature, the degree of involvement of boards is vague. For example, Stiles and Taylor (2001) identify that the two questions, “what **constitutes** involvement in strategy” and “what does strategy-making mean” often remain unaddressed.

Based on the above discussion, the strategic of the board is just one side of the important roles of the board especially the chairman. The chairman has a basic role on the board. Any collapse in governance system will be attributed to the chairman (Renton and Watkinson, 2001). Regarding the relationship between chairman and the management team, Roberts and Stiles (1999) explain that the relationship between the CEO and the chairman is very critical as these two persons offer direction for the firm as the chairman run the board, while the CEO run the firm (Roberts and Stiles, 1999). In some firm’s chairman is the CEO of the board and this is role duality (Dalton et al., 2008; Dahya et al., 2009; Dey, Engel, & Liu, 2010).

In theory, the separation of the two positions will mitigate agency problem and improve performance in firms. Hence, supporters of the separation raise the concern of how BODs can be effective monitors when the chairman is the CEO of the board (Lorsch and MacIver 1989; Jensen 1993). So, this dual role proposes a firm conflict of interest between the management and the board. The literature shows some differences whether the separation of the two positions will increase firm performance or not. For instance, Fama and Jensen (1983) found that dual role will harm firm performance. On the other hand Ibrahim et al., (2011) and Donaldson and Davis (1991) found that role duality was significantly associated with performance. While, Rechner and Dalton (1989), found no differences between firms with a dual CEO and those with separate positions.

Another element that the literature articulated is the board's composition. The assumption is about the most favourable number of outsider to insider directors serving on the board. This assumption is discussed by the agency theory (Dey, 2008) where the board should have the optimum composition to work effectively to supervise and advice the management to accomplish the shareholders' main goal, namely, shareholders wealth maximisation (Dey et al., 2010). The balance of both executive and NEDs are the most significant factors that should be considered by the BODs to enhance efficiency since both parties bring different skills to the board (Solomon, 2007).

The literature on board composition has been differentiating between two types of director, namely, an executive director who is fully employed by the firm and NED who has no relation or interest in the firm (Lipton and Lorsch, 1992; Vafeas and Theodorou, 1998) have identified grey director who has a degree of relationship to the firm. Followers of each group have justified the presence of this type on the board according to different viewpoint.

For instance, Fama and Jensen, (1983) show that insider directors are an important source of information and their existence on the board can lead to a more effective decision-making process. Furthermore, Weir et al., (2001) state that their main advantages are that they bring professional into the firm. While, Jensen (1993) argues that, since the primary goal is to monitor the CEO, it is almost not possible for those who report directly to the CEO to monitor and critically evaluate them. Therefore, he recommends that the only one who should serve on the board as an insider director is the CEO.

The empirical evidence between the relationship of the board's structure and firm's performance appears mixed (Dalton et al., 2007; Faleye, 2007; Iyengar & Zampelli, 2009; Dey et al., 2010).For instance, Bhagat and Bolton

(2007) found positive relationship between board independence and performance. Moreover, Vafeas and Theodorou (1998) found no relationship between outside directors and performance. On the other hand, Bhagat and Black (1998) found a negative relationship between the outside directors and performance.

Nowadays, independent directors are not acting to serve the best interest of shareholders in a proper way. Therefore, to reduce agency problem, independence is not enough; they should be accountable to shareholders. The Jordanian corporate governance code (2009) recommended that one third of the board should be independent non-executive directors. While, the Higgs Report (2003) recommended that at least half of a public firm' BODs should be independent NEDs.

Furthermore, independent NEDs are able to reduce managerial consumption of privileges (Brickle and James, 1987) which implies to reduce agency problem between managers and shareholders (Pearce and Zahra, 1992). Also, the presence of NEDs on boards provides "additional windows on the world" (Tricker, 1984, p.171). According to resource dependence theory, NEDs provide firms with links to the external environment due to their external contacts.

Another aspect is board committees. The motivation for establishing board committees is to divide the work between board members (Carter and Lorsch, 2004). Nowadays, most firms have different kinds of committees including, audit committees, executive committees, corporate governance committees, nomination committees and compensation committees. Many of the board's jobs in the firms are achieved by the committees. Regulators in the USA, the UK, and many other countries including Jordan have recommended an audit committee, remuneration committee and nomination committee for their listed firms (Monks and Minow, 2001).

Some committees have become mandatory in many economies. For example, the UK Combined code (2006) and the Jordanian corporate governance code (2009) recommend three types of committees, audit; remuneration; and nomination committees. Currently, audit committees have become a famous mechanism of CG (Turley and Zaman, 2004). However, the failure of many firms in the US, the UK, and the rest of the world have made many bodies such as academics and regulator concentrate on the importance of the audit committees as an effective tool for CG improvement. Other committee that appears in some firms nowadays is the nomination committee.

It is very crucial for any firm to have skilled directors on its board. Mallin (2004) affirms that in the past, directors were commonly elected on the board on the basis of personal relations. Barbara (2000) shows that directors should not be elected randomly; hence, establishing a nominations committee can facilitate this process. The basic role of the nomination committee is to accomplish a systematic procedure to evaluate the existing balance of knowledge, skills, experience and employing this when training a candidate profile for new appointments (Mallin 2004).

In Jordan, the CG Code for shareholding companies listed on the Amman Stock Exchange (2009) stated that member of the board of directors should be qualified and enjoys adequate knowledge and experience in administrative affairs. Another important committee that exists in most firms is the compensation committee.

The fourth committee that plays an important role in most firms is the remuneration (compensation) committee. The compensation committee can be seen as an administrative tool that guarantees a suitable level of reliability in the setting of executive remuneration (Main et al., 2008). The BODs is mainly considered to be the main body responsible for top management remuneration (Jensen, 1993; Zajac and Westphal, 1994). The remuneration committee has long been employed in the US, although such a committee is somehow new in the UK (Conyon and Mallin, 1997). The Cadbury Report (1992) in the UK suggested that boards should appoint compensation committees, composed of mainly of NEDs and chaired by a NED .While in Jordan the CG Code for shareholding companies listed on the Amman Stock Exchange (2009) recommended that boards should appoint remuneration committees, composed of not less than three non-executive members of the board of directors, at least two of whom must be independent members and one of the two independent members must preside over the committee. OECD Principles (2004) ensured that compensation policy should be handled by a special committee separate from the board comprising of wholly or a majority of independent directors. Other committee that appears in some firms nowadays is the corporate governance committee.

After the failure of famous firms in different economies, some researches called for a distinguish improvement in CG mechanisms. William George (2002) suggested that every board should establish a CG committee. George (2002:22) explains that the most important responsibility of the CG committee is “to draft the governance principles”. In addition, Neubauer and Krapf (2004) argued that the CG committee is a mechanism in helping the firms to have appropriate expertise and educated directors. In addition it motivated the BODs to be more involved and active in the board's agenda as there is an independent body that evaluates their performance and contributions continuously. Another important committee is executive committee.

The most popular name for such a body is a management committee (or executive committee in some firms). Management committees are normally recognized to make decisions in the board[s absence (Carver and Oliver, 2002). Their function varies and can consist of dealing with urgent problems arising between board meetings. They also can be used as a sounding board for general management issues (Charkham, 1994). In addition to the board's committees, the literature identify control factor that is significant in board performance. The next subsection examines this feature in detail.

3.3.2 Control

Managers are employed to work for shareholders' objectives and interest, but separation of ownership and management may provides managers with motivations to work of their own interest while ignores those of shareholders. To mitigate the impact of this separation, responsibilities of both directors and auditors should be clearly recognise to shareholders to make sure that they will take actions that are highly consistence with the primary goal of shareholders wealth maximization. It was recommended that asymmetric information is one of the factors that magnify the conflict of interests between managers and shareholders. Auditors with known responsibilities are expected to reduce the severity of asymmetric information, reducing agency costs and consequently maximising shareholders wealth. Bedard et al., (2004) argue that the audit committee must be independent of the firm's management to protect the interest of shareholders although there are different opinions concerning the influence of management compensations on performance, this compensation should be linked and restricted to managers' contribution in enhancing firm performance and meeting its goals. This may make them more efficient, enhancing the efficiency of a firm's operations and consequently increasing value. According to Jensen and Meckling (1976) higher levels of financial incentives should ultimately lead to higher firm performance. However, Brennan (1995) argues that monetary incentives are not enough to ensure complete alignment between the goals of managers and shareholders. According to Baker et al. (1988), when making decisions, managers at certain points yield to behavioural notions of justice and loyalty rather than to financial incentives alone. Despite of these arguments, when monetary incentives are considered, managers should not involve in setting their own compensations. This will make shareholders more confidence that managers will not enlarge their compensations which will reduce cash flows to common shareholders. It is worth noting the agency costs is an increasing function of asymmetric information. The cost becomes more severe when outsiders feel that there are a hidden agreement between managers and auditors. In such case, auditors should be changed to avoid any misconduct. The possibility of existing hidden agreement increases when auditors have non executive services rather than auditing. This suggest that control as of the critical factor of CG may force mangers to be aligned with goals of shareholders in the sense that it reduces the asymmetric information and thereby costs of controlling and monitoring.

In details, to carry out its supervision role and to protect the interest of shareholders, the audit committee must be independent of the firm's management (Bedard et al., 2004). The audit committee plays a significant role in terms of monitoring and controlling the firm's performance (Spira, 2003). To assure its independence, the audit committee is linked directly to the BODs and not to the top management. The audit committee works as a tool to enhance the external auditor's independence and provides more reliable financial reporting to users of financial statements (Spira, 1998; Turley and Zaman, 2004; Collier and Zaman, 2005).

In the UK and the US, decisions made by the board are determined primarily via a democratic system of voting (Johnson et al., 1993). In view of this democratic operational procedure, the board's composition has the ability to greatly influence its goal of monitoring managers and protecting the interests of shareholders (Johnson et al., 1993). In CG, board composition is central to board monitoring activities (Johnson et al., 1993). Monks and Minow (1995) stated that NEDs generally face a lower conflict of interests since their future career success does not depend on CEOs. It is argued that a larger outside directors' presence will bring stronger supervision of managerial actions. The general trend in the Jordan is for firms to add more NEDs to the board (Mazen, 2013).

After publication of the Cadbury Report, the number of NEDs on the boards of firms rose considerably (Barry, 1998). Mangel and Singh (1993) claimed that NEDs have more opportunity for control. Supporters of boards as a monitoring and control mechanism believe that NED is central to an effective resolution of agency problems between managers and shareholders (Fama and Jensen, 1983). Thus, the major assumption about the importance of the independent NEDson the board relies on their role in monitoring the management, and therefore will be the best one to protect the interest of shareholders is non-executive directors. According to Fama and Jensen (1983) show effective monitoring requires that NEDs are independent from the executive directors. In addition, they maintain that NEDs on the board of public firms have more incentive than executive directors to more independent and to monitor the activities efficiently in order to protect the shareholder interests. Moreover, they argue that outsider directors have incentives to develop reputations as experts in decision control and the board is not an effective device for decision control unless it limits the judgment of individual top management.

Furthermore, many studies also explored a number of determinants of the effectiveness of the board such board size. Board size is defined as the number of people who serve on the board as directors. Board size has a number of implications for the board's functioning. The importance of size is derived from its capability to communicate with the top management to serve shareholders' interests. It also gains its impact in reducing the conflict of interests between the two parties: management and shareholders. However, the literature reveals different ideas about the optimum size of the board (Ibrahim et al., 2011). Supporters of small boards argue that a smaller board plays a controlling function, whereas a larger board may not be able to function effectively as a controlling body, thus leaving the management relatively free. Consequently, an agency model suggests that a large board eliminates the corporate value. Jensen, (1993) emphasised that a small board can help to improve the firm's performance.

Different empirical studies have support for the Jensen argument, such as, Singh and Davidson III (2003); Hermalin and Weisbach (2003); Lipton and Lorsh (1992). Furthermore, Eisenberg et al., (1998) investigated the effect of board size on mid-size and small companies, and found that smaller boards were best. Ahmed et al., (2006) also discovered the same result. On the other hand, Conyon and Peck, (1998) found that larger board is best.

3.3.3 Competence

Corporate governance reforms and best practices require independent and competent board of directors and external auditor to deal with the perceived agency problems of asymmetric information between management and investors and to improve the quality of public financial information. What makes organizational structures and policies effective, in practice, are knowledgeable and competent individuals with a clear understanding of their role and a strong commitment to carrying out their respective responsibilities. This is because increasing management knowledge about a firm's short-run and long run objectives and about tools, techniques and strategies that are needed to accomplish these objectives will contribute effectively in reducing risks of failure and enhancing firm's performance. Moreover, qualified and knowledgably managers will increase outsiders trust that investment and financial decisions will optimally be made which will improve performance and then value. This, in fact, needs an efficient information technology to exchange financial information among all stakeholders, making them known what needs to be done to accomplish a firm' goals. Information technology reduces agency costs by providing information more easily so that managers can supervise a larger number of people with fewer resources. Moreover, it increases outsiders' trust, reducing asymmetric information and mitigate the cost of agency conflicts, reducing the impetus of potential investors to demand risk premium. This helps firms generate funds externally at low costs, and consequently increasing value and thereby shareholders' wealth. So, an effective corporate governance structure improves investor confidence; it ensures corporate accountability, enhances the reliability and quality of public financial information, and enhances the integrity and efficiency of the capital market which leads to high level of transparency, low costs of asymmetric and agency conflicts and result in high performance and value. Moreover, it increases the effectiveness of internal controls over financial reporting and related risk management assessment

In details, according to Solomon and Solomon (2004) the NEDs need all the support and help possible to ensure they perform their role effectively. Further, the Higgs Report called for more training for NEDs. In fact, good education, effective training and seminars are crucial to the application of CG practices and for the continuity of corporations. Corporate governance practices need to be strengthened, in particular by increasing board competence and responsibility. Board members should have up-to-date knowledge of financial issues and risk management training. Boards should conduct annual evaluations of their performance and report to shareholders. Corporate governance problems could be minimized by the appointment of competent director. On another hand a vital way to foster professionalism and competency is to provide training, education and support to directors and then to all human resources of the company (Solomon, 2010; OECD, 2009; Mallin, 2004 WBPR, 2004; Hussain and Mallin, 2003). In addition, Jensen (1993) suggested a mechanism to keep the board knowledgeable about the insider's information and participation, and to give them an overview about insider managers in order to evaluate them:

3.3.4 Compliance

Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. This along with a strong commitment to carrying out the board of directors' respective responsibilities mitigates the severity of asymmetric information. It increases the trust that BOD will be in the line with shareholders goals and objective which reduce the agency conflicts and thereby agency costs. Moreover, compliance with applicable laws, regulations and guidelines will increase the level of investor protections and transparency where companies are required by law to disclose their financial reports and statement. Hence, Effective ethical compliance management tends employees to ask questions correctly and, in the end, do “the right thing”, to observe ethical principles of professional conduct in avoiding potential conflicts of interest, and to act in the best interests of the company and its shareholders.

Furthermore, it influences employees to be willing to report violations to management, thus contributing to process transparency in the organization. Finally, it increases employees’ commitment, because a culture of compliance creates value equivalence that generates a sense of community and organizational commitment among employees (Trevino et al., 1999; McCabe et al., 1996). Hence, it is important for top management to lead in promoting awareness of compliance within their organization, as it sends messages to employees that inevitably shape the culture of their organizations (Beyer and Nino, 1999). Governance and compliance shows senior executives and board members how to ensure that their companies incorporate the necessary processes, organization, and technology to accomplish strategic goals. This might reduce information asymmetries by increasing the trust of outsiders that all people in the organization will work for shareholder interests. Hence, the agency costs of asymmetric information will decline, reducing the cost of creating funds and consequently enhancing value.

In details, any discussion of the role and purpose of compliance should begin with a definition of a compliance committee. A compliance committee is a group of people within a company or organization whose job is to make certain that all laws and rules relating to its activities are obeyed (Cambridge dictionary, 2012), particularly, a group comprised primarily of members of the board of directors assigned the task of ensuring that a corporation and its employees are acting in accordance with any and all applicable, laws, regulations, ordinances, rules, etc. In many countries including Jordan the audit committee serves this role in addition to its normal responsibilities. If management owns 100% of the shares of the corporation, no agency conflict exists. In this case, a board of directors is unnecessary, and therefore a compliance committee could instead be comprised of members of top level management (Malendy, 2005; shabbier, 2007)

It is worth to note that the senior level chief compliance officer is appointed and is responsible for the compliance function. The compliance function may be combined with other appropriate functions, as long as it's independent and no conflicts of interest arise. Also, the method of determining the remuneration of the compliance staff does not compromise their objectivity. Furthermore, the board may choose to establish a compliance committee. The responsibilities of the compliance committee are where the insurer establishes a compliance committee, that committee is objective and independent and has the necessary authority to access all relevant information (OECD, 2009). As mentioned in the definition of compliance committees, the committee is normally assigned the goal of ensuring that a corporation and its employees are acting in accordance with all applicable laws and regulations (Malendy, 2005; shabbier, 2007).

The committee's role is not limited to prevention of company misconduct but also includes monitoring the corporate to track current noncompliance or that one has already occurred and enforcing training program to minimise compliance failure. Creating a compliance committee as part of a compliance program may enhances oversight of a company, which is an element of good of best practice as outlined by The European Centre for Best Practice Management (ECBPM). Additionally, it is expected that the implementation of a compliance committee can help a company's performance in the long run by ensuring that the company complies with regulations that are in the best interests of its stakeholders(CG code of Jordan, 2009 ;shabbier, 2007)

According to OECD (2004) firms should disclose its CG practices, and a number of countries such disclosure is now a part of the regular reporting. The purpose of a company report should be to convoy information which is useful to those who have an active stakeholder (Zairi and Letza 1994). In many countries, firms should practice corporate governance principles set by the authorities with mandatory reporting on a "comply or explain" basis. Disclosure of the policies of the firm and governance structure is necessary to assess firm's governance (CG code of Jordan, 2009).

3.3.5 Competitiveness

He et al (2000) conclude that the board of directors can affect both the motivation and the capability behind firm competitive behavior. Directors can supplement the firm with their own managerial and relational capitals, which enhance the firm's ability to undertake competitive actions in effective and efficient ways to serve shareholders' interests. This makes governance mechanisms efficient and leading to reduced agency costs, and thus improving firm financial performance (Eisenhardt, 1989). (McWilliams and Siegel, 1997) argue that the announcement of each competitive action event will determine the direction and magnitude of stock market reaction. This may be attributed to the fact that announcement of events will increase the level of transparency, reducing the severe of asymmetric information and consequently increasing value. Hence, evaluating and disclosing the performance of both BOD and managements in annual reports will enhance outsiders' trusts in accomplishing the firm's long run goals. Moreover, agency costs and asymmetric information can be mitigated in the presence of major shareholders within the firms. This is because major share holders have the power and cost less access to inside information, so the work as a mechanism of alignment between shareholders and managers, reducing the agency costs of shareholders-managers conflicts and thereby enhancing performance and value. This may also work as a mechanism of protection to minority shareholders who find it is too costly to control management behavior (Gillan and Starts 2003). Hence, the firm should frequently disclose about the major shareholders and how large they are in its ownership structure with focusing in the protection system of small individual investors. Disclosure of ownership structure and protection level send signals to outsiders, reducing the asymmetric information and adverse selection costs and increasing the firm's ability to generate external funds at a lowest cost.

In details, to sustain competitive advantage, firms must go beyond the skillful use of tools and techniques to envelop a comprehensive set of values, beliefs and premises that guide organisational activities (Zairi, 2005). Evaluation of the board as a whole or individually is an important aspect in assuring a competitive and effective board. In 1994, the National Association of Corporate Directors (NACD) published a report on the performance evaluation of CEOs, boards, and directors (Ribbon, 2005). The report recommends that boards develop a system for adopting a mechanism and setting goals for evaluating the performance of the board as whole, members individually, and the CEO. It also urged for a separate evaluation for the CEO as a chairman in case of CEO/chairman duality. Carter and Lorsch (2004) believe that boards need to assess their performance annually. Neubauer and Krapf (2004) showed that the value of a formal board evaluation, from a corporate governance point of view, is to keep the board accountable. The Fortune 1000 survey carried out by Korn/Ferry International (2002) also showed that only 37 percent of the firms evaluated the entire boards compared to 26 percent in 1996, where only 21 percent evaluated the individual directors, whereas 41 percent of those directors think that the individual directors' evaluation is effective.

In the literature, two approaches are employed to assess the board members individually. The first process is peer review by the entire board in which each member is asked to assess the performance of every other member. The second process is a review by a special committee that is composed of external directors (Neubauer and Krapf 2004). In the majority of organisations, the corporate governance committee is the body that carries out this function. Garratt (2003) argues that the board’s chairman is the one who is responsible for assessing the capability of the board and the individual directors.

On the other hand, evaluating directors has some disadvantages as well. Hoffamn (2003) listed some of the pros and cons. For instance, Hoffamn (2003) shows that: “it is difficult to establish effective standards for evaluation that accurately reflect the contributions of each director, since each member possesses a different set of competencies, and qualified candidates may not want to join a board and current directors may not wish to remain on a board that has an evaluation process". However, such a disadvantage can be overcome by imposing some semi- or fully-mandatory regulations to evaluate the board and the directors by the regulators in every country. Thus, it appears that the board evaluation becomes a part of the corporate governance systems in these countries

Another competitive function of the board is the creation of corporate objectives, strategies, and a board policy Mace (1986). However, Mace (1986) showed also that "most boards do not perform the function, and the board may or may not be involved in approving policies, strategies, and objectives defined by management. For example, a management proposal for approval of an annual capital budget involving $10 million to $50 million or more will take roughly thirty minutes of a board meeting of one and half hours. And it would be rare that board members who would do anything except go along with management" (Mace 1986:68-69). Thus, Mace's (1986) finding is similar to that of (Herman, 1981) who found boards are not involved in strategy formation .Lorsch and MacIver (1989) found that the main role of the boards in terms of strategy formation process was in advising and evaluating rather than initiating strategy. Norburn and Grinyer (1974) found a strong agreement that the CEO set the primary objectives of the firm in recent years most countries excluding Jordan have approved many regulations and recommendations that help boards in becoming more connected with top management in these countries (Cadbury, 1992; Greenbury, 1995; OECD, 1999; Sarbanes-Oxley 2002; OECD, 2004; Combined Code, 2010).

An issue in CG competitiveness is ownership structure or control of companies. A study by La Porta et al., (1998) on publicly owned companies showed that among others, family control is more common in countries with poor shareholder protection, while the widely owned firm is more common in countries with good shareholder protection. The constitutional system of governance grants shareholders the power to control the companies they own. Institutional shareholders own the majority of voting shares in most companies and must accept responsibility for ensuring they are controlled well.

The central nature of the public limited firm in the United Kingdom is that its shareholders are separate from those who have effective control of the firm's managers. Berle and Means (1932) first observed this characteristic among US corporations. The separation of shareholders and decision control is therefore the main reason for CG in any country. Further, the Cadbury Report (1992) identifies shareholders in general meetings as senior corporate members, who will also determine the composition of boards in general meetings. Directors exercise the powers and responsibilities granted to them by shareholders at board meetings. The shareholders' rights theory offers a useful framework for analyzing the nature of public corporations. According to Ricketts (1994), shareholders' rights can be private, communal, collective, exchangeable and exclusive. The structure and form of shareholders' rights influence their behaviour and the efficiency of the exchange process.

3.3.6 Culture

It is worth noting that mere compliance with applicable laws, rules, and regulations will not guarantee effective corporate governance, since those measures cannot change the culture within an organization. Thus, companies should integrate the best practices suggested by investor activists and professional organizations into their corporate governance structure. Hence the company should be aware to the significance of changing the culture by increase the impetus of employees to report violations to management. This may require the firm to make everything cleared to each one in the organization in terms of his roles, duties and responsibilities by setting an efficient evaluation and remuneration policies. This suggests that effective corporate governance can only be achieved when all participants add value to the company's sustainable long-term performance which makes them more accountable and personally responsible for their performance. This will enhance the firms' performance and thereby value. This could be accomplished when all staff effectively carries out their fiduciary duty and professional responsibilities which increases the possibility of avoiding potential conflicts of interest, and acting in the best interests of the company and its shareholders.

Nowadays, the business atmosphere is identified by a process of evolutionary development change including international competition, technological improvement and advances in the information revolution, globalization of financial markets and legislative changes. In order to meet these challenges it requires economic reform and structural and legislative modification. Jordan has realized the importance of making relevant changes to its capital markets policies to match the standard of corporate governance with the global standard. However, may be these standards will not enhance companies' efficiency and may not be applicable to some of MENA countries which have relatively weak legal system, a small economy, non efficient stock market, Islamic society and tribal families etc, unlike UK and USA which have strong legal systems (Gray, 1988) and different culture. Culture is one of the environmental factors affecting, for instance, disclosure practices employed by firms (Radebaugh and Gray, 1993; Wallace and Gernon, 1991).

According to Wallace and Gernon, (1991), an issue that appears in research in the field of CG is inability to explore and identify the cultural aspect. In fact, there have been calls for studies to look at the specific cultural factor in a country to either deny or support the two opposing theories; convergence hypothesis versus cultural theory. Moreover, the traditions of a nation are appears in its people and as such may help justify why things are as they are. Also, Wallace and Gernon (1991) recommended the application of national character such as beliefs, attitudes and values to justify differences in the accounting practices. The concept of CG may include empirical research on disclosure as one of the explanatory variables because it is the board of directors that manages information disclosure in annual reports (Gibbins, Richardson and Waterhouse, 1992). Furthermore, code of ethics play a key role in connecting individual decision-making processes to the social context in which they operate (Dietrich and Roberts, 1997, p.26). In fact, best practice of good governance is far more than writing a code of ethics or creating an active board. Approximately, it is an integral part of the social responsibility of firms and their employees.

Agency Theory provides theoretical underpinnings for many research efforts in the disciplines of economics, management, marketing, finance, and accounting. It is one of the most influential theories that underlie the bulk of the corporate governance and management control research in the Western world (Samson, 2004). Agency theory is applicable in relationships that mirror basic agency structure of a principal and an agent (Eisenhard, 1989).

Gray and Jenkins (1993) distinguish between two types of codes of practices in CG: while internal codes are formulated to deal with a specific relationship, external codes have already been established for general categories of relationship and are imported into specific relationships; therefore, external codes tend to appear as implicit, whereas internal codes are more explicit. In this context, it is worth emphasizing that the ability of an ethics code to resolve agency problems can also be quite limited, in particular, with the presence of external sanctions. Thus it is important, when applying the critical agency perspective, to keep in mind the limits and the instability of voluntary cooperative action (Heath, 2009).

3.3.7 Commitment

Greater commitment can improve efficiency and maximize firm performance by minimizing agency conflicts (Rhodes & Soobaroyen, 2010). Agency Theory provides the proper theoretical framework to analyze interest alignment among shareholders and top managers. This work was developed by Berle and Means (1932). Jensen and Meckling (1976) formalized the Agency Theory by analyzing the interactions between the firm and the market. People attribute commitment to themselves to maintain some coherence between their behaviour and their attitudes. Kline and Peters (1991) affirmed that shareholders have a greater commitment occurs because of the gap that exists between ownership and control. The control of companies is delegated to executive team. Executives should maximise the welfare of shareholders, by making decisions which are in the shareholders" interest. However, the separation of ownership and control may lead to divergence between managerial decisions and the interest of shareholders (Jensen and Meckling, 1976). To align managerial decisions with the shareholders" interest, shareholders can provide incentives to motivate executives to align managerial decision-making with the interest of shareholders. For instance, shareholders will award stock or stock options to executives and directors (Kim et al., 2010).

In this case, their wealth will be positively related to firm performance. Thus, executives have an incentive to increase firm performance. Also, several studies have documented that good CG and corporate commitment lower their cost of equity capital then increase shareholder value (Jinhan, 2011; Jamali et al., 2008). Further, Fahi et al. (2005) has highlighted the positive impact of employees on firm performance.

In details, no firm can be successful without executive support and commitment. Everything starts with a committed and passionate leader of the business organisation: a leader who is really committed to making fundamental changes (Thiagarajan & Zairi, 1997). It is crucial that the chairman and the board first define their ‘reserved power’ and then learn how to work together with the managing director in order to have a balance in the decision-making process and to avoid any conflict in the directorial dilemmas though using diverse ideas or information (Garratt, 2003). As Carver and Oliver (2002:35) point out, “no one in a firm or on a board has any authority or indeed any role at all, unless the board grants it”.

Garratt (2003) argues that ensuring the proper procedures of the board are carried out in a timely manner is the duty of the chairman and the firm secretary. By having his office in the firm, the chairman can carry out such functions more easily and effectively. The chairman’s time commitment is significantly greater than that of other directors, whether or not he has an office within the firm; his connection is enormously strong with the CEO (Doug, 2003, Carter and Lorsch, 2004).

No firm can be successful without executive support and commitment. According to Zairi (2000):

"The key drivers for adding optimum value to society and the communities in which specific business organisations operate are through having strong commitment to corporate and social governance, having an open dialogue with external stakeholders and having the determination to achieve environmental sustainability."

Sustainability is *"The ability of an organisation to adapt to change in the business environment, to capture contemporary best practice methods and to achieve and maintain superior competitive performance"* (Zairi and Whymark, 2003). Thus, this factor focuses on the company's commitment to stakeholder interests. Since stakeholders play an important part in the corporate governance system, because they have the power to influence the firm's policies and systems. Alexander (1990) asserted that *"companies' best serve their shareholders by taking account of the interests of employees, customers and communities".* Charkham (1989b) also asserted that if shareholders are to succeed this *surely "implies satisfied customers, competent suppliers, and well-motivated employees".* However, the current literature on CG focuses on the interests and behaviour of shareholders and managers and gives little commitment and attention to stakeholders. There are two reasons for this neglect. The first is the "indeterminacy" argument which holds "confusion will reign" if managers are responsible to a large number of interest groups (Charkham, 1986b; Parkinson, 1993). The second reason for the neglect of stakeholders in the corporate governance debate could be that the concept of stakeholder participation has no appeal to shareholders or managers. Shareholders will not allow a challenge to their interests. Managers, who suffer interference from shareholders, are unwilling to give other stakeholders the power to “impose on corporations binding obligations to workers, communities or other constitutions” (Grundfest, 1990).

In addition, Mitchell and Sikka (1996) stressed that all corporate governance reforms need to take into account the fact that companies are communities. Wealth generation is the outcome of a cooperative effort involving many stakeholders, such as financial capital, human capital and social capital. The rights and obligations of all three are a cornerstone for any effective governance approach. For that the Companies Act needs to recognise this reality. Also, the OECD (2004) indicated that the rights of stakeholders should be protected by law. In all OECD countries, the rights of stakeholders are established by laws such as labour, business, and commercial and insolvency laws or by contractual relations. Even in areas where stakeholder interests are not legislated many firms make additional commitments to stakeholders, since concern over corporate reputation and corporate performance necessitates the recognition of broader interests (Ammann, et al., 2011, Zurikat ,2013).

However, corporate boards and structure arrangements vary widely from country to country; they are a product of the local economic and social environment (Hampel, 1998). For instance, in the US, shareholders have a major influence in the running of the firm they own while workers have much less influence. On the other hand, in Germany, for example, the representatives of unions serve on supervisory boards; the companies’ principal bankers also have plenty of influence in the strategic decisions of management. Moreover, until a few years ago, shareholders in Japan played almost no role except that to provide capital; managers had been left alone to guide the firms as they saw fit, namely, for the benefit of employees of allied companies, as much as for shareholders (Monks and Minow, 2001). It is important to note that no system can be understood without considering the features of the society because each country's system is affected by its social, political, and economic history.

In summary, the CG system committed to protects the rights of other stakeholders, such as bondholders, customers, suppliers, and employees. The CG system also encourages active cooperation between the corporation and stakeholders which will improve the performance of the corporate governance and the market (Ammann, et al., 2011).

3.3.8 Communication

The communication level is another critical factor for a sound governance system since corporate information that is available to outsiders alleviates information asymmetry between managers and investors. Previous literature documented that more disclosure reduces agency problems, and, in turn, increases firm value (Baek et al., 2009; Botosan and Harris, 2000; Botosan and Plumlee, 2002).

High quality of disclosure will help companies achieve a better performance in the market (Koh et al., 2007; Jia0, 2011). Koh et al., (2007) emphasise that a high quality of disclosure will help companies achieve a better performance in the market. Corporate shareholders rely on corporate disclosure to evaluate the performance of corporate executives. Improving managerial transparency is one purpose of the corporate governance mechanism (Chen et al., 2007a). Nelson (2005) shows that a greater quality of corporate governance positively affects firm performance. A good corporate governance mechanism will motivate corporate executives to better fulfil their duty. An optimal corporate governance mechanism imposes appropriate performance pressure on company managerial teams, to ensure that managerial activities are aligned with the interests of the corporate shareholders. If there is an appropriate alignment, executives of the companies will have more incentive to increase firm performance. Thus, a high quality of corporate disclosure will increase the confidence of market investors, since it reduces information asymmetry and market uncertainty. Effective corporate internal auditing will detect managerial wrongdoing and deter the executives from involving themselves in self-interested activity. For instance, using an independent audit committee will enhance firm performance (Koh et al., 2007).A high quality of disclosure and an effective managerial team will help companies achieve a better performance in the market. The high accuracy and transparency of corporate disclosure is one objective of a good corporate governance mechanism, for it facilitates corporate shareholders to protect their rights (OECD, 1999; OECD, 2004).

Solomon and Solomon (2004) also indicated: “Increased and improved disclosure is likely to reduce agency costs as better information flows from the firm to the shareholders, which in turn reduces information asymmetry” (2004, p 120).

Corporate governance mechanisms consist of stockholder rights, disclosure and transparency, responsibilities of BOD’s, board committees and conflict of interest, (OECD, 2004);Wong, 2009; Wanyama, Burton et al., 2009; McGee, 2008; Black, Carvalho et al., 2008; Gupta, 2008; Okike, 2007; Chong & Lopez-de-Si lanes The OECD (2004, p.49) stated:

“A strong disclosure regime that promotes real transparency is a pivotal feature of market-based monitoring of companies and is central to shareholders' ability to exercise their ownership rights on an informed basis. Experience in

countries with large and active equity markets shows that disclosure can also be a powerful tool for influencing the behaviour of companies and for protecting investors."

Diamond and Verrecchia (1991) and Easley and O'Hara (2004) observe that private information is priced in securities as a source of risk, thereby implying a negative relationship between disclosure quality and information risk. Agency theories (Jensen and Meckling, 1976; Healy and Palepu, 2001) point out analysts' role as external monitors for management and imply a negative association between analysts' monitoring costs and disclosure quality. This explanation implies a positive relationship between disclosure rankings and firms' future operating performance. As increased transparency of disclosure will help the investors to monitor the listed companies effectively and protect their rights.

In details, transparency and disclosure are rated as important elements in the corporate governance system. Thus information to shareholders is one of the most important aspects of CG, because it reflects the degree of transparency and disclosure of the firm towards its shareholders. Disclosure is making something known or revealing something (Williams, 2005; Bandsuch et al., 2008). The OECD (2004, p.49) stated:

"A strong disclosure regime can help to attract capital and maintain confidence in the capital market".

From the above quotation it seems that disclosure is very important, especially in MENA countries including Jordan, because it attracts new capital. Shareholders and possible investors require access to regular, reliable and comparable information in sufficient detail in order for them to be able to assess the stewardship of management. Furthermore, disclosure helps companies improve public understanding of their structure and activities, corporate policies and performance with respect to environmental and ethical standards, and companies' relationships with the communities in which they operate. This will help investors in their investment decisions (OECD, 2004). So, a strong disclosure regime will help in establishing an effective CG system. In line with the OECD, Solomon and Solomon (2004) stated that an increase in corporate transparency is a major initiative of CG reform in any country, as emphasised in the Cadbury Report:

“The lifeblood of markets is information and barriers to the flow of relevant information represent imperfections in the market ... The more the activities of companies are transparent, the more accurately will their securities be valued” (1992, p.33).

Solomon and Solomon (2004) also indicated:

“Increased and improved disclosure is likely to reduce agency costs as better information flows from the firm to the shareholders, which in turn reduces information asymmetry” (2004, p 120).

The OECD (2004) pointed out that transparency would include disclosure of quantitative and qualitative matters concerning employees and other stakeholders in the corporation, governance structures and policies, corporate targets and prospects, and execution of unusual and complex transactions, transactions on derivative products and their level of risk. In summary, a CG system should provide disclosure and communication of key facts about a firm ranging from financial details to governance structures.

Furthermore, a number of studies have examined the influence of different characteristics on annual reports disclosures. These characteristics include culture, size, industry and profitability (Street et al., 2000; Wallace et al., 1994). Easley and O' Hara (2004) declared that investors required a higher return to hold stocks with higher information. They found that one significant implication of their theoretical model is that companies can affect their cost of capital by their choice of accounting standards.

Another issue in communication factor is role of the board chairman to contribute in planning the agenda of the board's meeting. Boards have a limited number of meetings (Renton and Watkinson, 2001). According to Renton and Watkinson (2001) the board members control and rule the board meetings, while the chairman has the duty of planning, preparing for and managing the meetings of the board of directors. Carver and Oliver (2002) argued that the board of directors wishes to rule itself initially. Actually, the board's agendas should be placed by the board of directors. Consequently, it is unreasonable that the chief executive officer governs the board's agenda. The CEO can include some items that he desires to discuss in the board's meetings. Accordingly, several studies examined the significance of the chairman of the board in having an effective board and directors have other duties and responsibilities. At the present time, practitioners and scholars highlight on the importance of evaluating the board of directors individually as well as evaluating them as a whole (Carver and Oliver, 2002).

3.3.9 Conduct

CG reforms including guidelines, codes and laws have been established to protect shareholders' rights and restore investors' confidence in the capital market. From the agency theory perspective, these reforms have largely contributed to the evolution of a number of CG mechanisms that aim to mitigate the agency conflicts resulting from the separation between ownership and control (Jensen and Meckling, 1976; Dey, 2008). These reforms adopts shareholder value as an overall objective, accordingly, theses reforms mitigates the agency conflicts between managers and shareholders, aligns their interests and creates shareholder value ((McLaren, 2005; Crowther, 2003).

In details, according to OECD (2004) members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation. Abusive self-dealing occurs when persons having close relationships to the company, including controlling shareholders, exploit those relationships to the detriment of the company and investors. As insider trading entails manipulation of the capital markets, it is prohibited by securities regulations, company law and/or criminal law in most OECD countries. However, not all jurisdictions prohibit such practices, and in some cases enforcement is not vigorous. These practices can be seen as constituting a breach best practice of good corporate governance as they violate the principle of equitable treatment of shareholders. The Principles reaffirm that it is reasonable for investors to expect that the abuse of insider power be prohibited. In cases where such abuses are not specifically forbidden by legislation or where enforcement is not effective, it will be important for governments to take measures to remove any such gaps.

According to Fama and Jensen (1983), NEDs act as referees in conflicts between shareholders and managers. Parkinson (1993) indicated that NEDs have the ability to evaluate management's performance. The Cadbury Report (1992) identified two particularly important contributions of NEDs to firm governance namely, reviewing the performance of the board and of the executives and taking the lead where potential conflicts of interest arise. If executive directors occupy a large number of board seats, they will control the board and their ability to protect shareholders' interests is compromised (Davidson et al., 1996). Vance (1983, cited in Monks and Minow, 2001) stated:

"Corporate apologists and critics alike agree, at least in theory, that if outside directors command a powerful majority in the boardroom, they will be better able to check the tendency of those in top management to abuse their position of power". The idea from the above argument is that if independent NEDs control a majority on boards this will help to prevent managerial abuse and protect shareholders' interests.

Another issue includes directors' involvement in defining the firm's business concept, developing a firm mission and recommend services activities which include representing the firm's interest in the community, linking the firm with the external environment, presiding over shareholders' meetings, and participating in firm functions (Judge and Zeithaml, 1992; Pearce and Zahra, 1992; Stiles and Taylor, 2001). The board's engagement in developing human resources management, product quality, and customer satisfaction are all an engagement in strategy formulation. A UK firm survey in 1993 showed that 'customer satisfaction' and 'delivering quality' are at the top of the list of chairmen's responses (Coulson, 1993).

Beyond acquiring resources representing stakeholders' interests, Mintzberg (1983), Pearce and Zahra (1992) and Goodstein et al., (1994) showed that the strategic role of the board involves taking important decisions on strategic changes that help the organisation to adopt important environmental changes.

3.3.10 Conscience

Effective corporate governance is likely to encourage more corporate social responsibility (CSR), which in turn is expected to improve stock prices. Thus, effective corporate governance is more tending to enhance shareholder value through encouraging better CSR (Jizi, 2013). The economic consequences of CSR imply that CSR is an investment rather than an expense which in turn maximise shareholder value (Jizi, 2013). Managers are agents of the stockholders and should therefore give priority to serving them by maximizing financial gains. Managers must seek to maximize shareholders value and they should not engage in any acts that may lead to its reduction. In its simplest form, they argue that managers should do whatever is legal in order to maximize shareholder value. Therefore, CSR can become a very useful tool to maximize shareholders value (Devinney et al., 2013). According to Lantos (2001) CSR is 'social contract' between a firm and society, therefore better understanding of CSR will encourage firms to create a strategy to enhance overall business performance, CSR has also been described as a tool to build good corporate reputation.(Lewis ,2003 ; Porter, 2003). More scholars assert that CSR Maintaining and increasing profitability (Goyder, 2003; Hopkins, 2003). CSR enhance efficiency and firm performance for shareholders by acting as a monitoring mechanism to reduce agency conflicts between managers and shareholders (Reverte, 2009; Raelin & Bondy, 2013:420). Thus CSR can ultimately help achieve and/or enhance profitability (Wan, 2003; Waddock and Graves, 1997).

In details, in 1998 after the Asian financial crisis, the World Bank and the Organization of Economic Cooperation and Development (OECD) started to encourage countries to apply the concept of CG by encouraging international conferences and seminars which were not only limited to Asian countries but also to other countries such as the USA and European countries attended them. In addition, over the last five years a series of international conferences have been held under the title “The Asian CG Roundtable” to exercise procedures to attain better management in different aspects in Asian countries. From the definition of CG, it can be said that CG is the distribution of rights and responsibilities between a number of participants in the corporation, like the board of directors, shareholders, managers and other stakeholders, in setting rules and procedures for making corporate decisions.

One of the important responsibilities of the board's chairman is to ensure the board’s effectiveness. This includes leading the board in thinking through its role and design (Carter and Lorsch, 2004). An effective chairman can make an enormous difference to the board’s performance. The chairman's time commitment is significantly greater than that of other directors. He must not only prepare for and attend the board and committee meetings, but also have the time to interact with the chief executive, to meet with other staff and directors, and to carry out important external relationships (Doug, 2003).This relationship may include participation in the community development, sponsoring educational program and involving in charitable contribution. The next section is devoted to theories of CG.

3.4 Summary

This chapter has provided many useful insights into the critical factors of corporate governance based on the framework developed by European Centre for Best Practice Management (ECBPM). Furthermore, it has reviewed empirical studies on each of the critical factors of corporate governance in both developed and developing countries. Although the survey of the literature has shown that a large number of studies have examined the subject of CG in the context of developed and developing countries, there is no evidence that this subject has been examined in Jordan.

Furthermore, agency theory is the main framework for the current study. A review of Corporate Governance theories has provided many useful insights into the introduction of Corporate Governance. Furthermore, a theoretical framework of corporate governance therefore, will attempt to bridge the gap in the literature relating to the corporate governance system in Jordan through a systematic investigation on critical factors of corporate governance in Jordanian firms. There is no evidence that this subject has been examined in Jordan. The next chapter is devoted to the research methodology of the study.

CHAPTER FOUR

4 THE RESEARCH METHODOLOGY

4.1 Introduction

This chapter addresses methodological issues according to social science research guidelines. These issues guided the current study to examine the subject of corporate governance in Jordanian firms. This chapter begins with highlighting the research objectives and research questions, then data collection method. In order to answer the research question, this study employed a mix of quantitative methodology of a questionnaire survey and qualitative methodology of semi-structured interviews.

Data collection in the current study is divided into three stages. First, review of previous literatures which have addressed corporate governance in many developed and developing countries. Second, questionnaire was designed to collect data regarding determinant of current corporate governance practices, implementing them in Jordan. Last, this study employed semi-structured interviews to provide a more depth overview of the current state of corporate governance in Jordan.

4.2 Research Objectives

The main objective of this research is to provide a comprehensive study of the determinants of current practice of corporate governance in Jordanian companies. In detail, the research objectives will be as follows:

- To identify the determinants of critical factors for implementing best practice of corporate governance in Jordan.
- To explore the current practice of corporate governance system in Jordan.
- To identify the factors that inhibit the best practice of corporate governance in Jordan.
- To empirically examine the effects of corporate governance on firm performance (financial measures) in Jordan.
- To explore the participants' perceptions regarding the effect of corporate governance on firms' performance in Jordan.
- To investigate the relationship between corporate governance practices and firm's characteristics (Firm size, Firm age and sector) in Jordan.

4.3 Research Paradigm

Saunders et al. (2007) give this definition: "A paradigm is a way of examining social phenomena from which a particular understanding of these phenomena can be gained and explanations attempted." According to Hussey and Hussey (2003), research paradigm can be defined as the philosophies and assumptions people have about the development of knowledge. These philosophies direct the study investigation. They influence the manner the study is conducted, how the data is gathered and analyzed and how the conclusions are explained (Guba and Lincoln, 1994). Apparently, there is no agreement in the literature on the number of available paradigms. For instance, Guba and Lincoln (1994) stated that there are four paradigms. These are: constructivism, critical theory, positivism and postpositivism. Later, they recommended a fifth paradigm called participatory (Guba and Lincoln, 2005). In contrast, Saunders et al. (2003) declared that there are three main methods of the epistemological perspective. These are: positivism, interpretivism, and realism. Formally, there are two main paradigms prevailing in the literature. These are: interpretivism and positivism (Burns, 2000; Easterby-Smith et al., 2002; Hussey and Hussey, 2003). Moreover; many terms are employed to explain these two paradigms as shown in Table 4.1.

Table 4-1 4:Alternative terms for the major research paradigms.

Positivist	**Interpretivist**
Quantitative	Qualitative
Objectivist	Subjectivist
Scientific	Humanistic
Experimentalist	Phenomenological

Source: Hussey and Hussey, 2003, p. 47.

This study followed primarily a positivist approach. Nevertheless, the positivist approach does not permit the researcher to change direction as data gathering has started and it does not give a deep understanding of social processes, therefore an interpretive approach will be adopted in this study. Hammersley (1999) stated that a quantitative approach to research can produce acceptable and reliable findings. This study is therefore used triangulation approach to give better understanding of the findings and results.

4.3.1 Positivist Approach

In broad terms, positivism believes in one reality. The researcher is independent and neither affects nor is affected by whatever is being observed or studied. S/he formulates objective explanation in a value-free way (Saunders et *al.,* 2003). According to Hughes (1996), a positivist paradigm is used by researchers which depend on quantitative methodology. In positivism, the world works according to strict rules and therefore obtains a deterministic structure which it is the business of science to discover (Hughes, 1996). The phrase "positivism" had been created in the nineteenth century by August Comte, and the ideas related with it were very important at that time (Hammersley, 1995). This study will employ this approach to answer the main research question about the current practice of corporate governance in Jordanian firms. This approach allows the researcher to gather huge amount of comparable data. The researcher plans to compare the results obtained from the research with literature reviewed earlier.

4.3.2 Interpretive Approach

As for the current study, qualitative methodology will be employed to provide a broader overview of the current state of corporate governance in Jordan. This will help mainly to answer the research question (RQ-2) asked “What is the current state of corporate governance system in Jordan?” Hughes (1996) shows that the main concern in data collection process is to be aware of whether the meaning of the items intended by the researcher is equivalent to that understood by the respondent (p.115).The researcher has to know that terminology is simply understood by participants and has the identical meaning as planned , particularly, when a questionnaire is designed. Interestingly, Hughes pointed out that the interpretive approach can permit the researcher to gain more in-depth data and knowledge on the topic (1996). Moreover, it permits the researcher to attain more data and knowledge on the subject. Also, it perceives subjective but multiple realities. The researcher engagement with what is being studied or observed has an influence on him/her and on the situation being observed or studied (Hussey and Hussey, 2003). Briefly, Positivist and Interpretive Approach depend on a number of assumptions. These are summarized in Table 4. 2.

Generally, it is hard to classify a business research under one definite paradigm. The majority of business research merges both paradigms (Easterby-Smith et *al.,* 2002; Saunders et *al.,* 2003; Hussey and Hussey, 2003). This is the case in corporate governance research too. After examining literature, there is no one true manner to approach a study in this field. Such projects cannot be described as adopting either positivist or interpretivist paradigm. Generally, doctoral research uses a hybrid approach that merges both techniques. This practice is known as triangulation.

Table 4-2: The main assumptions of the positivist and interpretivist paradigms

Assumption	**Interpretivist**	**Positivist**
Methodological research type	Inductive	Deductive
Research progress	Develop ideas through induction from data	Formulate hypotheses and test them
Concepts	Multiple methods are used to establish different views of phenomena	Operationalised to be measured
Sample	Small number selected for specific reasons	Large number randomly
Relationship of the researcher to that researched	Focus on meanings understand what is happening	Focus on facts look for causality
Role of values	Biased	Unbiased
Epistemological Relationship of the researcher to that researched	Interacts Focus on meanings Understand what is happening	Independent Focus on facts Look for causality
Ontological Nature of reality	Subjective Multiple As seen by the researcher	Objective Singular Apart from the researcher

Source: adapted from Hussey and Hussey, 2003, p. 48, and Easterby-Smith, 2002, p. 27.

4.4 Triangulation

"Triangulation refers to the use of different data collection methods within one study in order to ensure that the data are telling you what you think they are telling you" (Saunders et al., 2000:98) .Hussey and Hussey describes triangulation as "the use of different research approaches, methods and techniques in the same study" (2003, p. 74). There are many kinds of triangulation according to Denzin (1978), Easterby-Smith et al., Thorp and Lowe (1991), Hussey and Hussey (1997) and Seal (1999), including:

1. Data triangulation: (in which data is gathered at different points in time and from various sources of data. e.g. quantitative and qualitative, primary and secondary…)
2. Method triangulation (employing more than one method of data collection. e.g. questionnaires, interviews, archive, observations ...), this kind of triangulation is the most generally used.
3. Design triangulation (merging different research design e.g. exploratory, descriptive and analytical, inductive and deductive, quantitative and qualitative …)
4. Theory triangulation (in which a theory is borrowed from one field and utilized to clarify a phenomenon in a different field).
5. Investigator triangulation: in which many researchers separately collect data on the same phenomenon and compare their differences and similarities. Certainly, this will minimise personal bias.

Nowadays, the adoption of the triangulation approach is not only possible, but also recommended (Easterby-Smith et *al.,* 2002; Saunders et *al.,* 2003). There are various benefits for employing a triangulation approach. For instance, Creswell (2003) argues that a combined design is advantageous to better understanding of the concept being examined. Further, Easterby-Smith et *al.,* (2002) argue that a mixed research techniques avoid the research from becoming method-bound. Thus, each strategy removes the method-effect of the other (Saunders et *al.,* 2003). This will increase the validity and reliability than a single strategy by offering more ways of creating evidence in support of main arguments (DenZin, 1978; Hussey and Hussey, 2003), and in turn, gives extra confidence in the outcomes of the study (Saunders et al., 2003) .However, the triangulation strategy itself is not free from disadvantages. Table 4.3 illustrates the advantages and disadvantages of triangulation strategy.

Table 4: Advantages and disadvantages of a mixed approach strategy

Advantages
Words add meaning to numbers, while numbers add accuracy to words.
Answer a broader and more range of research questions.
The outcomes of one phase can be employed to develop the next phase of the study
Offer stronger evidence for results achieved.
Add more insights and understanding to the concepts being examined.
Increase the generalisability of the results.
disadvantages
More expensive and time consuming.
The researcher has to know about multiple methods and strategies and how to combine them.
Might require a research team rather than a single researcher.

Source: Johnson and Christense, 2007.

The selection of appropriate data collection depends on the topic and research questions. Remenyi (1998) clarify that the area to be investigated and research questions are the key drivers in the selection of research methodology. Furthermore, Robson (1993) indicates that if the methods are not given answers to the research questions, it is a warning to amend something. For that reason, the researcher should guarantee while choosing data collection methods that the data collected are answering the research questions. Hence, methods will rely on what the researcher is trying to answer.

Based on the above argument and according to the aims of this study the researcher employed multi-method combining quantitative and qualitative approaches to give more advantages for the study. One of the advantages is that it enables triangulation to take place. A triangulation strategy is adopted in terms of data collection methods and types of data to be collected as illustrated in Table 4.3. This decision is made for the following reasons:

1. To achieve the possible benefits of the triangulation strategy listed in Table 4.3.
2. To improve the reliability of the outcomes of the study.
3. To increase confidence in the achieved findings.
4. To cancel out the method effect, since the results attained from different methods converge. Thus, the researcher will mix quantitative and qualitative methods throughout the different stages of the research and results from the different methods be compared to see how far they are consistent.

Table 4-3: Elements of research methodology in the current study

Methodology elements	Triangulation
Data collection methods	Interviews Questionnaire
Type of data	Primary and secondary

4.5 Population, Sample and Participants

4.5.1 Population

It is important in any sample based research to identify the population being surveyed to guarantee that the sample chosen gives a precise representation of the population (Thomas, 1996). The target population of the current study includes both the industry and service sectors of non financial firms listed at Amman Stock Exchange (ASE) at the end of 2011.Table 4.5 shows the total number of both the industry and service sectors of non financial firms which are listed at the end of 2011.

Table 4-4: Number of companies in each sector for the total population of Companies listed on ASE

Sector	Number of firms
Industry	72
Service	129
Total	201

4.5.2 Sample

The current study focuses on the industry and service sectors of non financial firms listed at Amman Stock Exchange (ASE) at the end of 2011. The firms from the financial sector (for instance, banks, insurances etc) were excluded from the study, as these firms have their own regulated agency with their own code of CG, which are very different from the rest of the firms listed in Amman Stock Exchange. According to the Directory of Jordanian Corporations, CD-ROM issued by the Amman Stock Exchange, the total number of the manufacturing and services sectors of non financial firms listed at the end of 2011 is 201. Thus, census was undertaking as the sample was in fact the population of all eligible firms and a questionnaire was distributed to each of them, in total 201 firms.

4.5.3 Participants

Senior managers are the key stakeholders in an organisation who are aware of CG in any of the listed firms. Hence, to select the participants for the present research, a purposive sampling strategy was employed. In the case of the questionnaire survey in this study, all the participants were the senior managers of non financial firms listed in the Amman stock exchange.

It is assumed that senior managers will conduct the actions necessary to achieve the firm's goals. Senior managers know what the final results should be. This might motivate managers to perform to their best ability (Letza, 1996).

The reason for selecting senior managers is to choose the participants who are the most knowledgeable, in terms of the issue being studied. This, in turn, helps in achieving the research objectives and answering the research questions.

4.6 Research Methods and Data

Ghauri and Gronhaug (2005) state that research methods refer to the methods employed to collect data. There are various methods that can be employed to gather data. For instance: questionnaire, interviews, analysing documents, observations, etc. In the present research, a data triangulation strategy (a combination of methods) is adopted. The methods are: semi – structured interviews and a questionnaire. These methods are discussed in the following subsections.

4.6.1 Questionnaire Survey

According to Bryman (2004, p.109) “social surveys are likely to be particularly appropriate where larger scale issues are concerned” .To collect data on the manner firms, a questionnaire was designed with the aim of obtaining data about the determinants of critical factors for implementing best practice of corporate governance in Jordan and the factors that inhibits the best practice of corporate governance in Jordan.

4.6.1.1 Questionnaire Design

The questionnaire was designed bearing in mind the appropriateness of the content of questions, sophistication of the language used, the type of questions asked and the sequencing of questions in the questionnaire. Questions were designed carefully in order to be easily understood and answered accurately and clearly, and the vocabulary used must be comprehensible to all participants. The design and structure of the questionnaire is very important, it has a strong correlation to the response rate achieved.

The questionnaire design followed guidance in Gillham (2000) and De Vaus (2001). In order to simplify the procedure of collecting and analyzing the data, the questions for the questionnaire in the survey were set as closed questions. As Sekaran argues:

> *"Closed questions help the participants to make quick decisions to choose among the several alternatives before them. They help the researcher to code the information easily for subsequent analysis" (2003:239.).*

Questions aimed to be obvious, consistently understood, meaningful, related and closely defined. More of a hard mission than may it appear at the beginning. Additionally, the questionnaire needs to elicit rich and pertinent information. In the design of the questionnaire, awareness was given to the steps explained by Bourque and Fielder (1995), who recommended that in order to assist participants' answer the questionnaire without need for help, questions ought to be as simple as possible, short and precise. This applies to the instructions given as well. The questionnaire benefited from recommendations by the European Centre for Best Practice Management (ECBPM) and insights attained from the pilot interviews as well as a thorough review of the related literature in the corporate governance fields.

The questionnaire comprised 61 questions split into various sections. Each section collected a specific kind of data. All scales were standardized to a seven-point Likert scale, with 1 to 7, where 1=strongly disagree, 2=disagree, 3=moderately disagree 4=neutral, 5=moderately agree, 6= agree, 7=strongly agree. This is in order to keep consistency and facilitate the analysis of data.

Before distributing the questionnaire, it was evaluated by professionals and academic experts since the questionnaire had to be written in a suitable and understandable style. Questions and wording were amended based on their comments. This issue is discussed in the following sections.

4.6.1.2 Question Wording

The wording of an individual question will influence the sort of answer extracted. Therefore, in designing the questionnaire unclear questions were removed.

4.6.1.3 Translation and Pre Testing

Pre-testing a questionnaire is a very important step in ensuring its validity and reliability. Thomas (1996) ;(Bryman, 2004) ;(Hussey and Hessey 1999); Gilllham (2000) Oppenheim (1992, p.26) noted:

> *"Pilot work can be of the greatest help in devising the actual wording of questions, and it operates as a healthy check".*

Pre-testing of this questionnaire was crucial because most of the corporate governance literature is written in the English language but Arabic is the common language in Jordan and there was a probability that some of the participants were not well versed in English. The first draft of the questionnaire was prepared in English and then translated into the Arabic language. Each participant was sent two copies of the questionnaire, one of the Arabic version and the other in the English version. Participants were given the option to answer whichever versions they prefer.

To ensure a high response rate and to check the questionnaire's validity and reliability for the current study, it went through several developmental steps prior to final circulation. In the first stage, a draft of the questionnaire was prepared by writing down all questions based on the literature review and other questionnaires employed in previous studies. Once completed, this draft of the English version was evaluated by Faculty Staff of the Accounting and Finance department of the University of Bradford and a number of PhD students in the department to extract their comments on the phrasing, sequence and composition of the questionnaire. A draft was also sent to ten academics in Jordanian universities (all having a PhD in accounting and finance from the UK and the USA). The items of the questionnaire were mapped against the research questions and objectives. Redundant questions were removed. Typing mistakes, grammatical errors and unclear terms were dealt with appropriately. The length of the questionnaire was kept as short as possible. The design of the questionnaire was adapted to assure its attractiveness. As a result of pre-testing, a second draft of the English version was prepared.

The second draft of the questionnaire was then piloted by a group of referees. According to their recommendations, many changes were made, some questions were removed, some questions were added and minor modifications were made to some questions and the introductory paragraph. A third draft of the English version was developed. The new draft of the English version was pre-tested by senior managers from seven different Jordanian firms. The managers in Jordanian firms were asked to complete the questionnaire and comment on the content of the questions, clarity, their coverage, layout, and the required time to fill the questionnaire. In general, all of them affirmed that the questionnaire was well prepared. At the end of this phase the final draft of the English version was developed.

The fourth draft of the English version was translated from English into Arabic with expert assist. This created the first draft of the Arabic version. The translation was delivered to Faculty staff of Yarmouk University (all of them having a PhD in accounting and finance from the UK and USA) to confirm the meaning in Arabic. Simultaneously, a draft copy was delivered to a language expert in Arabic to confirm the meaning and grammar and to review it for any residual errors. Changes to the translation were made based on the referees suggestions. Finally, the amended Arabic questionnaire was pre-tested with eight managers in Jordanian firms. All managers were able to finish the questionnaire in less than 25 minutes. No problems were encountered during the pre testing process.

In short, piloting the questionnaire was a lengthy process. It was conducted over many stages. As mentioned in the previous sections of sampling and data collection, many experts in the field of finance and CG participated in this process. Changes were made to both versions of the questionnaire according to their suggestions and recommendations; the Arabic and the English version. At this point, the scholar was confident about the validity of the questionnaire, and that it could be used to collect the data for the present research.

4.6.1.4 Distributing the Questionnaire

The preliminary field work, such as contacting companies started during the period September to October 2011. Through the social network of the researcher a senior director in Securities Exchange Commission, who is directly involved with corporate governance issues in Jordan, was approached. He gave the contacts of participants as well as reference letters so that the participants will be willing to support the researcher in collecting data. With the help of this person, the participants were contacted by phone.

The purpose of contacting them was for the following reasons:

1. Motivate the participants to participate.
2. Give the participants an idea about the research and its objectives.
3. Allow the participants know when to expect the questionnaire and how.
4. Provide the participants with a general idea about the confidentiality of the research.
5. Introduce the researcher to the participants.

A research assistant was employed to help in distributing and collecting back the questionnaires. The actual distribution of the questionnaires started on 7/10/2012 and was completed in 5 days. This was possible to do in such a short period of time, as all the company's headquarters are based in Amman, the capital city of Jordan. A total number of 201 questionnaires were delivered to the participants. To reduce the problem of low response rate, all questionnaires were delivered by hand to each participant. Additionally, the questionnaire was accompanied by two covering letters. One was from the researcher, a second letter supporting the study was provided by Yarmouk University asking for participants' cooperation. By 13/12/2012, a total number of 112 questionnaires were collected. Once checked, 8 questionnaires were not included in the study because of the incomplete responses. The remaining 104 questionnaires were coded and entered into a pre-prepared SPSS sheet.

On 16/12/2012, the non-participants were contacted by phone for the following reasons:

1. Remind them about the questionnaire and motivate them to complete it.
2. Notify them about another copy of the questionnaire that would be delivered to them within a week from this phone call.

A week later, the second copy of the questionnaire was delivered to the non-responding firms. At mid of January a total number of thirteen questionnaires were collected back. Only nine of them were usable. The number of the usable and non-usable questionnaires illustrates in Table 4.6.

Table 4-5: Number of the usable and non-usable questionnaires.

Batch	Collected	Usable	Non-usable
First	112	104	8
Second	13	9	4
Total	125	113	12

A total number of 125 questionnaires were collected back as illustrated in Table 5.6. As a result, a high response rate of 62% was achieved. However, only 113 of the collected questionnaires are usable for analysis. The remaining 12 were discarded as the returned questionnaires were incomplete due to the lack of seriousness of the participants.

4.6.2 The Interview Method

Semi-structured interview was adopted to gather data from interviewees from Jordanian firms and extend the findings of the quantitative study. An interview is the action including personal contact between two sides, namely, the respondent and the interviewer (Nigel and Harrocks , 2010) .It can be conducted via phone, face to face, or any other communication device (Cooper and Schindler, 2006). Steinar (2007) stated that interviews can obtain what a person thinks, knows and likes. As a way of obtaining information it is not restricted to use with a specific research methodology. While surveys conducted through interview are generally expensive and may decrease the ability to keep anonymity, which can be very important when sensitive problems are being investigated. On the other hand, they are sometimes favourable to questionnaire surveys because of the role the interviewer can engage in directing the questioning, ensuring respondent participation, explaining the meaning of answers and answering the respondent’s questions.

Furthermore, the interview permits the researcher to control the interview conditions, yields in a higher response rate than the questionnaire, and the interviewer can explore for further data. In general, the interview is favourable when asking complex and longer questions (Oppenheim, 1992; DeVaus, 1996;Steinar (2007); Nachmias and Nachmias, 2008; Nigel and Horrocks, 2010).

Normally, there are four categories of personal interviews, namely, structured, semi-structured, unstructured and focus group interviews (Bryman and Bell, 2003). In the structured interview, questions are close-ended and the order in which they are asked is similar in every interview. The questions to be asked are standardized and pre-determined for all interviews. The interviewer reads the questions and records the answers on a standardised answer sheet. This kind of interview is not flexible but easy to analyse and more objective. Sekaran (1992, p.192) explained this kind of interview as follows:

“Structured interviews are those conducted by the interviewer when he or she knows exactly what information is needed and has a predetermined list of questions that will be posed to participants”.

The semi-structured interview follows a less rigid format, which merges characteristics from a structured interview and an unstructured interview. It lies between both kinds (Cooper and Schindler, 2006). In a semi-structured interview, standardised questions are included, there are also open-ended questions intended to obtain more qualitative data (Steinar, 2007). According to Hussey and Hussey (1999) the advantage of semi-structured interviews appears in the process of "open discovery", when the topics explored change from one interview to a new one as different aspects of the topic are discovered.

In an unstructured interview, there are no prearranged questions. Generally, the interviewer has a general idea about the topic of the interview. His goal is to explore an issue in more depth (Saunder, et al*.,* 2003). Often, the unstructured interview is called the "informal conversational interview" (Steinar, 2007). It offers the highest flexibility with which to follow information in whatever direction seems to be suitable. Usually, it allows interviewees to answer questions within their personal background and provides the interviewee the chance to talk about the topic. Sekaran (1992, p.190) stated:

"The type and nature of the questions asked of the individuals might vary according to the job level and type of work done by participants".

The focus group interview is an interview with a small group of people on a particular issue. It permits researchers to concentrate on group norms and dynamics about topic they want to examine. The degree of control of the group discussion will decide the nature of the information created by this technique. According to Sekaran (1992, p.218):

"Focus groups typically consist of eight to twelve members randomly chosen, with a moderator leading discussions regarding a particular topic".

An interview is often believed to be a good data collection method particularly for exploratory studies. However, it can be utilized for explanatory and descriptive studies as well. An interview assists in gathering important data that are pertinent to the issue under investigation. This in turn helps in formulating the research questions and objectives (Saunder, et al*.,* 2003).

In the present research, questions were qualitative in nature because they sought to obtain participants' opinions. Therefore, all the interviews conducted were semi-structured. The semi-structured interview is argued to commonly provide a high percentage of outcomes (Miller, 1991). There are quite a lot of advantages of semi-structured interview (Gerlad and Jay, 1985), including:

- There is evidence to believe that people enjoy talking.
- High response rate.
- Easy to clarify the objectives of the study
- Easy to respond to any questions a respondent might have.
- The interview is important in obtaining data about sensitive, personal and sometimes perceived unexpected data.

Despite the advantages mentioned above, there are quite a few expected difficulties in conducting semi-structured interviews since:

- Some data is of a sensitive nature, participants would therefore probably choose to answer questionnaires in order to avoid any personal embarrassment.
- Data collected is very limited hence could be better collected by questionnaire.

In the current study, seven interviews were conducted with managers of Jordanian firms and four interviews were conducted with regulators. It is important to note that all interviewees were fully qualified and adequately experienced to discuss the relevant issues. The interviewees selected for the interview survey was taken from those participants who had indicated willingness and were interested to participate in the interview stage.

All Interviews were face to face and took between thirty and forty five minutes. All interviews were conducted in October and November, 2012. The samples chosen by the researcher for interviews were top managers of Jordanian companies of non financial sector. Prior to undertaking the interviews, the researcher tried to collect some information about the companies to enable him to be fully prepared to ensure the interviews could be conducted smoothly.

In addition, the interviewees who had agreed to participate in the survey were contacted by phone to set the date and the time of the interview. These interviews were recorded upon the prior approval from the interviews, except two interviews, where the participants disagreed to record their interview. However, the researcher had to sign a confidentiality agreement with the participants that all the recording would be destroyed once the data is being interpreted and the recording will not be shared with anybody else other than the researcher. Each interview began with welcoming the interviewee and appreciating him/her for participating in the study. Interviewees were informed that interview outcomes would be employed for study purposes only. This declaration was essential to motivate interviewees to answer freely. After that the importance and objectives of the present research were explained. Each interviewee was asked to give some information about himself and his firm. The questions asked did not follow a typical order. Furthermore, new questions were asked to the interviewees to explore issues brought up by them. However, all aspects of concern were dealt with during every interview. Each answer to each question was carefully written down on an interview schedule. The researcher moved to the next question only after each answer had been correctly recorded. The contents of each interview were translated from Arabic to English with help of a language expert. To insure the accuracy and reliability of responses, they were subsequently reviewed by a native English speaker and an expert in Accounting. Huge effort was made to ensure no details were lost during the translation and transcription process.

4.6.3 Data

In line with the triangulation strategy adopted, as noted earlier the data for the present research consist of primary and secondary data to help answer research questions. Primary data is first hand data gathered by the researcher for the purpose of the problem at hand. This data is collected by means of surveys and interviews. On the other hand, secondary data comprise any data that have already been gathered by others. This data can be acquired from different sources such as journal articles, theses, books, magazines and conferences proceedings regarding corporate governance.

In short, the present research gathered both quantitative and qualitative data. The quantitative data is gathered in numerical form. This data was gathered by means of questionnaire survey. On the other hand, the qualitative data is usually non-numerical. It was gathered through semi-structured interviews.

4.6.3.1 Editing and Exploring Data

One of the key issues related to the primary data collection is data preparation. Data preparation means processing and exploring data. It deals with topics like: non response bias, validity and reliability, entry and data coding, missing data and distribution normality. Data were examined and prepared before being analyzed and presented.

4.6.3.2 Labelling the Variables

As pointed out earlier, a total number of 113 usable questionnaires were collected back by the mid of December 2012. First of all, each respondent (questionnaire) was given an ID number to make it easy to check back the raw data if a mistake in data entry was identified. The following step was to decide on the label (abbreviated name) to be given to each item. In relation to this, each item is to be measured by one or more question. Each question was given a label to connect it easily to the item it measures. For instance, one of the items examined in the current study is “constitution”. This item was measured by seven questions. The label given to this item is “CONS”. Each question that measures this item is labelled: CONS1, CONS2, CONS3, CONS4, CONS5, CONS6, and CONS 7. To facilitate entering and processing data, the latter needs to be coded. Coding means giving numeric values to the responses. Finally, the data were entered into an SPSS sheet[1].

4.6.3.3 Reliability and validity

The credibility of study results depends on the reliability and validity of the measuring instrument (Hussey and Hussey, 2003).

4.6.3.3.1 Reliability

According to Bryman and Cramer (2005), reliability refers to the consistency of a measurement scale or instrument. Reliability has two aspects: internal and external. External reliability refers to the level of consistency of an

[1] SPSS statistical software version 16.0 was used.

instrument over time. A comprehensive process of testing and piloting was a major factor in trying to ensure external reliability. Internal reliability addresses the internal consistency of the items that form a scale. With composite scales, internal reliability is considered important. Reliability is usually measured by the Cronbach's alpha method. This method suggests that the reliability of each scale is measured in terms of the value of the overall (α), which ranges from 0 to 1. The higher the value of (α) the more reliable is the scale. Generally, an alpha of 0.7 or higher means a reliable scale (De Vaus, 2004). However, in social science studies if an alpha value is as low as 0.6, it is considered acceptable (Sekaran, 2003; Velde, et al., 2004). Moreover, Nunnally and Bernstein (1994), recommend that for the early phases of any research, a reliability of 0.50-0.60 is acceptable.

4.6.3.3.2 Validity

Validity refers to the degree to which a scale measures what it is assumed to measure. According to De Vaus (2004, p. 27), "Validity has to be argued for: it is not proven". However, the most common way in assessing validity is to evaluate the face validity (Hussey and Hussey, 2003). This is considered satisfactory to ascertain validity particularly when a new scale is developed (Bryman and Cramer, 2005). All the composite scales are developed for the purpose of this study. It is worth to note that the face validity of all scales and the questionnaire as a whole was assessed by a panel of experienced referees as recommended by De Vaus (2004).

4.6.3.4 Testing for Non-Response Bias

It is crucial to find out whether a non response bias is expected to be a problem in a given study or not. Churchill and Brown (2004, p. 477) listed two different ways to evaluate the degree to which important differences exist between participants and non participants. These are:

- Contact a sample of non respondent
- Conduct an analysis of late participants vs. early participants.

In the current study, the two methods recommended by Churchill and Brown (2004) to evaluate the extent of the non response bias problem were attempted. These are discussed in the next few paragraphs.

All non responding firms were contacted by phone. The purpose of these calls was:

- To get answers to the main key questions of the questionnaire, namely the current practices of corporate governance in Jordan. These answers were then to be compared with those acquired from the responding firms. Suitable statistical techniques would be employed to check for significant differences between the two groups.
- To know why the participants refused to participate in the current study.

Unfortunately, none of the contacted firms agreed to provide answers to the question about their practices of corporate governance in Jordan. Hence, the first method recommended by Churchill and Brown, (2004) to evaluate the non response bias problem could not be used. Nevertheless, the phone conversations demonstrated that these firms did not participate in the current study because of one or more of the following reasons:

- They were too busy.
- The data to be offered are regarded as too sensitive.
- Bad experience with previous researchers and studies.

The second method suggested by Churchill and Brown (2004) is to compare the responses of early participants with those of late participants. The idea is that late participants are expected to be more similar to non participants than early participants. In the current study there are two groups of participants. The first group is the early participants and totalling 104 firms. The second group is late participants and totalling 9 firms. The Mann Whitney U test is applied. Therefore, the following null and alternative hypotheses are tested by the Mann Whitney U test:

> *H0: There is no significant difference between the early responding firms and late responding firms.*
> *H1: There is a significant difference between the early responding firms and late responding firms.*

Since the significance level for the Mann Whitney U test between late and early responding firms is higher than 0.05, then it is clear that the null hypothesis can be accepted. This means that there is no significant difference between early responding firms and late responding firms. Thus, non response bias is not a problem.

4.6.3.5 Data Analysis

This section clarifies the kinds of statistical tests employed and justifications for the use of such tests. To analyse the data gathered from the questionnaire survey, many statistical tools could be employed. Regarding the current study, simple statistical tools were employed to present findings to show means and frequencies. The selection of statistical tests to be used depends on many factors (Siegel and Castellan, 1988, p.33; Huck and Cormier, 1996, p.555). The four key factors were the number of subjects in each group, the number of groups involved, whether the groups were independent or correlated and the measurement scale of the data values. In this study, the number of Jordanian listed firms responding to the questionnaire survey was 94 and they were classified into two sectors, namely, manufacturing and services.

Kerlinger (1986) stated four different reasons for adopting statistical analysis. The factors were aid in the study of the samples and population, decrease a large quantity of data to understandable and a manageable form, enable the deduction of reliable inference and help in decision making .Therefore, after coding the responses of questionnaire data, the data was then transferred to the SPSS computer package for analysis. As the study concentrates on current corporate governance practice in Jordanian firm, it is suitable to analyse participants' return in terms of the behaviour of different statistical moments. The first moment is Mean and the second moment employed is the Standard Deviation. The idea was to create an indicator to compute the variability of an individual response within a particular distribution. Therefore, the probability distribution of the Standard Deviation of participants' answers computes how much the outcome can differ below or above the expected outcome of the Mean (Oppenheim, 1992) . To examine differences between independent samples, the researcher carried out non-parametric tests which are appropriate with ordinal data.

4.6.3.5.1 Non-parametric Statistics

Non-parametric statistics usually do not involve inference to a parameter. Most procedures are based upon frequency distributions and/or rank order rather than Means and, therefore, do not require interval-level data, or assumptions about the shape of the underlying distribution. Further, they make relatively few assumptions about the nature of the population distribution (Milton et al., 1996). Although nonparametric tests have few assumptions, there are some general assumptions that should be taken into account, which are random samples and independent observations (Pallant, 2005). In general, various advantages can be gained from using non-parametric test and Bereson and Levine (1992) have summarised these as follows:

- Non-parametric methods may be used on all types of data.
- Non-parametric methods are generally easy to apply when the sample sizes are small
- Non-parametric methods permeate the solution of the problem without testing the parameters of the population.

Non-parametric tests in social science research are equally as important as their parametric counterparts. Siegel and Castellan (1988) argue that behavioural scientists rarely have data that satisfies the assumptions of the parametric test, which includes achieving the sort of measurement that permits meaningful interpretation of parametric tests. Hence, non-parametric statistical tests play a prominent role in behavioural and social sciences. The non-parametric test was employed in this study because the firm characteristics were not treated in the regression as a control variable. To test the difference between independent samples, the researcher carried out the Mann-Whitney test to investigate whether there are sig differences between sectors(industry vs. service) while Kruskal-Wallis was used to investigate the size and age effect , more precisely to investigates whether there are significant difference among firms attributed to size and age . Factor analysis was also used as a data reduction method, which will be explained in the next section.

4.6.3.5.2 Factor analysis

Factor analysis is a statistical technique that examines the relationships amongst a wide range of data sets to uncover the underlying dimensions (factors) amongst them. This permits a large number of observed variables to be summarized into a fewer number of factors (Pallant, 2007).

There are two types of factor analysis: exploratory and confirmatory. Exploratory factor analysis is the most common form of factor analysis. Normally, it is used in the early stage of the research process to identify the underlying structure of a large set of variables where there is no prior theory. It is also used as a reduction tool that enables a large number of related variables to be reduced into a small manageable number of factors. Confirmatory factor analysis on the other hand, is more sophisticated and normally used in the advanced stages of the research process to test a hypothesis or confirm a theory (Pallant, 2005). Generally, when performing factor analysis, there are four main issues need to be decided upon. These issues are discussed in the following sections.

5.6.3.5.3. The suitability of data for factor analysis

Before proceeding with factor analysis, the suitability of the data set for factor analysis must be verified. Two statistical tests are used to assess factorability of data: the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) and the Bartlett's test of sphericity (Field, 2005).

The KMO compares the magnitudes of the observed correlation coefficients to the magnitudes of the partial correlation coefficients. It is calculated for both individual and multiple variables. The value of the KMO statistic ranges from 0 to 1. The higher the value of the KMO statistic, the more suitable is factor analysis for the given data set. Kinnear and Gray (2000) considered a KMO value below 0.5 as poor and therefore unacceptable for the purpose of factor analysis. Moreover, Hutcheson and Sofroniou (1999, p. 224) suggested the guidelines shown in Table 5.5, for interpreting the KMO statistic. These guidelines in addition to the cut-off point suggested by Kinnear and Gray (2000) are used in the current study.

Table 4-6: The guideline for interpreting the KMO value.

KMO value	Interpretation
0.5≤KMO< 0.7	Normal
0.7≤KMO< 0.8	Good
0.8≤KMO< 0.9	Great
KMO< 0.9	Superb

Bartlett'stest of sphericity is used to test the null hypothesis, generally speaking. If the computed chi square statistic is significant ($\rho<.05$), then the null hypothesis may be rejected. Therefore, it is appropriate to proceed with the factor analysis for the given data set.

a. The factor extraction method

Factor extraction refers to identifying the smallest number of factors that can best represent the correlation amongst the data set (Kim and Mueller, 1978). Different extraction methods are available. For example, principal components, image factoring, maximum likelihood factoring, etc. The empirical evidence indicates that all methods produce similar results. Differences, if any, in the initial solutions usually disappear after rotation (De Vaus, 2004). However, principal components analysis is the most commonly used method. Furthermore, it produces more easily interpretable results. Therefore, this method is used in the current study.

b. The number of factors to be retained

Although there are many techniques to assist in the decision concerning the number of factors to be retained, the most commonly used is the Kaiser's criterion or eigenvalue rule. The eigenvalue statistic is computed for each factor. It represents the amount of total variance explained by the factor. The total variance that any factor can explain is standardized to one; therefore, using this criterion means that only components with eigenvalues of more than 1.0 are retained for further investigation (Bryman and Cramer, 2005). Many researchers recommend the use of a combination of methods to determine the appropriate number of factors to be retained. Following this recommendation, the Scree plot test is used, in the current study, to support the result of the Kaiser's criterion. According to this method, the cut-off point for selecting the factors to be retained is at the point where the curve breaks/influxes (Field, 2005).

c. The rotation method

Rotation is simply a linear transformation of the initial solution to make interpretation easier. Rotation does not change the underlying solution; rather, it differentiates more clearly between factors by making some items load more clearly on one factor than on the others. This clarifies the true contents of each factor and makes interpretation much easier (Bryman and Cramer, 2005).

A factor loading is equivalent to a correlation coefficient between each item and the factor. It helps in ascribing items to factors. According to De Vaus (2004), items with a loading coefficient of at least 0.3 are ascribed to the factor. However, the current study adopts the cut-off point of 0.4 as suggested by Stevens (1992) and Hair, et al., (2005). Therefore, an item with a loading, the absolute value of which is greater than or equal to 0.4 (i.e. explaining around 16% of the variance in the factor) is said to belong to the factor. Moreover, items with cross loading (loading on more than one factor) are recognised with the factors to which they theoretically and logically belong (i.e. according to the conceptual meaning) in addition to their factor loading.

Factor analysis is not a clear-cut technique. It involves many steps and decisions that will affect the final solution. For example, decisions have to be made as regard to the factorability of data, extraction method, extraction criteria and so on.

4.7 Skills

The character of the researcher should have some particular interpersonal and technical skills in order to do well in the collection of the data. One of these features which the researcher believe necessary is the ability to be flexible, open to integrate ideas and being open-minded in particular. Time management skills of the researcher have been improved by participating in the time management training workshops. It is obvious that the data collection method is relatively difficult, a lot of actions that should be observed so that the projected outcome are accomplished successfully. The Gantt chart that the researcher has made as part of PhD program requirements, where the researcher chart the activities which he should be doing each month, gave the researcher more advantage concerning this issue. Furthermore, experience, networking and knowledge are more necessary skills that are linked to the design of the questionnaire. In regard to the researcher’s experience, the researcher has worked as the branch manager of a Bank in Jordan and currently on study leave as a lecturer at the Yarmuk University, department of banking and finance, School of Management. This experience has been very useful for the researcher in his research, more specifically during the organization of interviews, interviewing managers as well as getting quick response for the questionnaire survey.

4.8 Ethical consideration

Ethical considerations are summarized in the following points:

- Participation in the study will be voluntary.
- Interviewee will be told that he/she has the freedom not to answer any question he/she does not want to answer.
- Participants will be informed of the nature and purpose of the study, and the expected benefits to the society.
- Anonymity of the participants will be assured. It will be made clear to all participants that neither their names nor their firms' names will be revealed at any stage in the study. Furthermore, participants will be assured that all data collected will be kept confidential and will be used for the purposes of the current study only.

4.9 Summary

In this chapter, the researcher has provided the justification for the choice of research methods, i.e. the questionnaire, and its advantages and disadvantages. Questionnaires have explored the issues related to the use of corporate governance in Jordanian firms. The questionnaire design, pilot testing and distribution procedures have also been discussed. Moreover, this chapter discussed the semi-structured interview used in the study as well as philosophical paradigm was discussed and justified.

In this study a triangulation approach in terms of research methods, design and kind of data to be gathered is used. A combined design of exploratory, descriptive and analytical phases is employed. The lack of systematic research about corporate governance in Jordan context imposed the exploratory phase. Identifying the current state of corporate governance in Jordan, justified the need for the descriptive study prior to undertaking more sophisticated analysis. Finally, evaluating the current practices of corporate governance in Jordan is most feasible through analytical phase.

Moreover, a literature review and informal semi-structured interviews were used to complete the exploratory phase. On the other hand, a questionnaire was employed to collect the data needed for the descriptive and analytical phases of the study. Before it was distributed it went through a long procedure of appraisal and piloting. A number of academics, senior managers, and professionals participated in this process.

In October 2012, a total of 201 questionnaires were handed in to the participants. A high response rate of 62% was achieved. However the rate of the usable questionnaires was 56% which is regarded satisfactory for the purpose of statistical analysis. The chapter presented the procedures applied to prepare the data for the statistical analysis. In addition, the tests used to examine reliability and validity of the data presented as well. The steps employed to prepare the raw data for analysis have been discussed in this chapter. All steps and or techniques used have been clarified and justified. The data preparation started with coding and entering the raw data into the SPSS sheet and finished with discussing factor analysis. The next chapter is devoted to the questionnaire survey results with factor analysis, and will also discuss regression models.

CHAPTER FIVE

5 QUESTIONNAIRE SURVEY RESULTS

5.1 Introduction

As pointed out in Chapter Four, a questionnaire (see Appendix A) was employed to gather data regarding the current practice of corporate governance systems in Jordanian firms. The main purpose of this chapter is to present the results gathered through the questionnaire survey. 201 questionnaires were distributed among Jordanian firms in both the manufacturing and service sectors of non financial firms. 125 filled questionnaires were returned. However, 12 questionnaires were not completed and therefore 113 returned questionnaires were used for data analysis. This high response rate has been achieved mainly due to the fact that the questionnaires were distributed to educated, senior level managers who feel the necessity of continuous improvement through research and development in their institutions

The following section covers the analysis stage. First, this section will give an overview of the descriptive statistics and mean levels for each item in the questionnaire. Second, factor analysis will be discussed and presented and finally the regression model will be introduced.

5.2 Respondents' Demographic Details

As pointed out earlier, respondents involved in this study comprised four groups, namely, chief executive officers (CEOs), deputy directors, financial managers and directors of internal audit in Jordanian companies. It was important to gather information about their place of work. This information about respondents was helpful in introducing respondents to the questionnaire, as well as obtaining useful data. The results of the analysis of the respondents' details are discussed in the following sections.

5.2.1 Job Position and Place of Work

The findings in Table 5.1 show that 26 participants were deputy directors, whereas 61 were financial managers and 22 were directors of internal audit departments. The second question in part one of the questionnaire investigated respondents' place of work. Table 5.1 shows 58 respondents worked in the industrial sector while 51 worked in the services sector.

Table 5-1: Respondents' Positions and Place of Work

JOB	SIC		
	Industrial	Service	Total
Deputy Director	15	11	26
Financial Manager	32	29	61
Director of internal audit	11	11	22
Total	58	51	109

5.2.2 Respondent Firms' Size and Age

113 companies responded to the questionnaire but there were 8 firms with missing data. The responding firms varied in size as shown in Table 5.2. According to the total asset criteria, the firms ranged from small firms with total assets of less than $10,000,000 to large firms with total assets of more than $40,000,000. Table 5.2 shows that the majority of the companies were in the 10-40 million interval. Unfortunately, in Jordan there is no formal definition of firm size that can be employed as a criterion to categorise firms. Hence, a decision was made to employ the EU definition of small, medium and large firms.

The same table shows that the majority of the companies fell in the interval 10-25 years old. Based on this result one might argue that responding firms were mature enough to be familiar with the practices in their field. The next largest group was younger firms that were less than 10 years. The minority were from older companies of 26 years or more. The following section discusses the analysis of the questionnaire's findings.

Table 5-2: Respondent firms' Size and Age

Age	Size			
	Less than 10 m	10m - 40m	Greater than 40 m	Total
Less than 10 Year	19	8	3	30
10-25	5	40	3	48
26 and more	2	11	20	27
Total	26	53	26	109

5.3 Constitution

One of the most important factors of best practice of corporate governance in the Jordanian firms is corporate constitution. Respondents who participated in this study were asked about their level of agreement with listed variables, using a scale from 1 to 7, where 1=strongly disagree, 2=disagree, 3=moderately disagree, 4=neutral, 5=moderately agree, 6=agree, and 7=strongly agree. Seven questions were considered, as displayed in Table 5.3. The results indicate that, generally, participants scored highly, on average, on all the elements measuring good practice in constitution, since all items recorded mean scores of 4.7 out of 7.

Among the items recording the highest ranking and mean scores were “disclosure of the structure hierarchy/network of the firm in the annual report” (mean 5.8) and "directors are required to disclose any matters that may affect the firm" (mean 5.6).

Respondents were asked if the firm includes information on the responsibilities of the board committee in the annual report and if the firm specify the maximum duration for directors – including the chairman – to serve on the board. The weakest agreement level was associated with these items, which recorded mean scores of 3.9 and 4.0 respectively.

The results reported in Table 5.3 show that, in general, participants agreed in that there is a formal and transparent procedure for the appointment of new directors to the board (mean 4.6). The roles of the chair and the CEO are split between different directors (mean score 4.7) and all board committees are composed of executive and non executive directors (NEDs) (mean 4.3). Thus, all the items had a mean score of 4 or above.

Bivariate analysis was undertaken to examine whether there were differences in the responses with regard to industry, age and size of firms. A Mann-Whitney test was carried out to identify whether there were sector (manufacturing and services) differences. The results presented in Table 5.3 show a non significant level of .915 which is greater than the alpha level of .05. This means that there are no significant differences in element 1 (constitution) across the two sectors. On the other hand, the Kruskal Wallis test revealed statistically significant differences in this element according to companies' age (p-value= 0.00), and size (p-value= 0.00).

Table 5-3: Respondents' Answers for Constitution Critical Factors

No	Element : Constitution	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	There is a formal and transparent procedure for the appointment of new directors to the board.	1	7	4.6	4	.915	.000	.000
2	The roles of the Chair and the CEO are split between different directors.	1	7	4.7	3			
3	Directors are required to disclose any matters that may affect the firm.	2	7	5.6	2			
4	All board committees are composed of executive and non executive directors (NEDs).	1	7	4.3	5			
5	We specify the maximum duration for directors –including the chairman-to serve in the board.	2	7	3.9	7			
6	We include information on the duties and responsibilities of board committee in our annual report.	2	7	4.0	6			
7	We disclose the structure hierarchy/network of the firm in the annual report.	4	7	5.8	1			
	Average			4.7				

5.4 Control

A further element which is a critical factor in corporate governance is corporate control. Respondents in this research were requested to give their answers on control factors of best practice of good corporate governance in their firms. Participants were asked to point out their level of agreement with listed variables on a seven-point scale as mentioned earlier. Responses to the questions are presented in Table 5.4.

As can be seen from Table 5.4, the findings indicate that, generally speaking, respondents scored highly on average on all the elements measuring good practice in control. This is demonstrated by most variables having mean scores of 4.8 and above. Moreover, participants ranked "the firm reviews the effectiveness of the internal control system" and “the firm describes the work of the audit committee in the annual report” as the first and second key items of control for best practice of good corporate governance in Jordan (mean 5.9 and 5.8, respectively). In general, participants showed a strong level of agreement with regard to the listed factors.

In the current research, “firms directors and auditors explain their reporting responsibilities in the annual report” was ranked as the third factor, with a mean score of 5.7. As can be seen from Table 5.4, participants considered the three factors mentioned as key critical factors with mean scores of 5.9, 5.8 and 5.7 respectively. The least important factors were, "firm discloses, in the annual report, whether the auditor provides non auditing services or not" and “our firm links rewards to long term performance” as indicated by their mean scores of 4.8 and 4.9, respectively.

With regard to whether there were any significant differences at the level of 5% ($p<0.05$) or not. The control factors of the best practice of good corporate governance in Jordanian firms according to sector (p-value= 0.287), which are not significant at α=0.05, are measured by the Mann-Whitney test. Testing for significant differences as measured by the Kruskal Wallis test at the level of 5% ($p<0.05$) in terms of age (p-value= 0.00) and size (p-value= 0.00), the results showed significant differences as is clearly shown by the reported p-value.

Table 5-4: Respondents' Answers for Control Critical Factors

No	Element : Control	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	Our firm links rewards to long term performance.	2	7	4.9	6	.287	.004	
2	In our firms directors and auditors explain their reporting responsibilities in the annual report.	2	7	5.7	3			.001
3	Our firm discloses, in the annual report, whether the auditor provides non auditing services or not.	2	7	4.8	7			
4	Our firm directors are not involved in determining their own remuneration.	2	7	5.6	4			
5	Our firm reviews the effectiveness of the internal control system.	3	7	5.9	1			
6	Our firm describes the work of the audit committee in the annual report.	2	7	5.8	2			
7	Our firm identifies in the annual report the key risk areas of the business and the strategies to manage them.	2	7	5.0	5			
	Average			5.3				

5.5 Competence

Respondents participating in the study were asked to give their answers on competence factors of best practice of corporate governance in their firms. Participants were asked to point out their level of agreement with listed variables on a seven-point scale as mentioned earlier. Responses for the five elements considered are summarised in Table 5.5, and indicate that participants agreed with all factors mentioned, with an average mean score of

5.0. This indicates that competence factors are effective factors for best corporate governance practice.

As can be seen from Table 5.5, participants strongly agreed that their firms review the proper technology and systems used in the firm to achieve the firm's goals (mean 5.6), enlighten new directors about the long/short term objectives and mission of the firm (mean 5.3) and update its directors about the trends and new global issues of corporate governance (mean 5.2). Also, the findings show that the least important factor is whether the firm trains new directors to read and analyse the financial statements (mean 3.9). Thus, the results suggest that both non-financial and financial transaction information in Jordanian companies needs more disclosure and transparency.

With regard to whether there were any significant differences at the level of 5% ($p<0.05$) concerning the control factors of good corporate governance in Jordanian firms according to sector i.e., industrial or service (p-value= 0.85). Moreover, testing for significant differences as measured by the Kruskal Wallis at the level of 5% ($p<0.05$) in terms of age (p-value= 0.018), and size (p-value= 0.00), showed significant differences as can clearly be observed by the reported p-value. This means that older firms and large-size firms are keener to adopt a balanced corporate governance system compared to newly formed and small-size firms.

Table 5-5: Respondents' Answers for Competence Critical Factors

No	Element : Competence	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	Trains new directors to read and analyze the financial statements.	2	7	3.9	5	.851	.018	.000
2	Enlightens new directors about the long/short term objectives and mission of the firm.	2	7	5.3	2			
3	Updates its directors about the trends and new global issues of corporate governance.	2	7	5.2	3			
4	Reviews the proper technology and the system used in the firm to achieve the firm's goals.	2	7	5.6	1			
5	Evaluates its process and transactions and discloses the result in the annual report.	2	7	5.1	4			
	Average			5.0				

5.6 Compliance

Respondents participating in the study were asked to give their answers on compliance factors of best practice of corporate governance in their firms. Responses to the six elements considered are displayed in Table 5.6. Participants recorded an average mean score of 5.2 which indicates that compliance factors are effective factors for best corporate governance practice.

As can be seen from Table 5.6, participants strongly agreed that the audit committee ensures compliance with law and assures an implementation of the board's decisions (mean 5.8), the firm implements the one share/one vote system in terms of directors' election (mean 5.3), the firm monitors the application of corporate governance principles and best practice to its particular circumstances (mean 5.4) and the audit committee works independently of top management (mean 5.3). The findings also show that the least important factors are “the firm applies a clear mechanism for the board of directors’ retirement and resignation” (mean4.8) and “the firms review and disclose the equality of employment opportunities in the annual report” (mean 4.3)

With regard to whether there were any significant differences at the level of 5% ($p<0.05$) concerning the control factors of good corporate governance in Jordanian firms according to sector (p-value= 0.173), they were not significant at $\alpha=0.05$, measured by the Man-Whitney test. Moreover, testing for significant differences by the Kruskal Wallis test at the level of 5% ($p<0.05$) in terms of age (p-value= 0.027), and size (p-value= 0.00) showed significant differences as can clearly be observed by the reported p-value.

Table 5-6: Respondents’ Answers for Compliance Critical Factors

No	Element : Compliance	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	In our firm, audit committee ensures compliance with law and assures an implementation of the board’s decisions.	1	7	5.8	1	.173	.027	.000
2	In our firm, audit committee works independently from top management.	2	7	5.3	4			
3	Our firm implements the one share/one vote system in terms of directors’ election.	2	7	5.5	2			
4	Our firm reviews and discloses the equality of employment opportunities in the annual report.	1	7	4.8	5			
5	Our firm applies a clear mechanism for the board of directors’ retirement and resignation.	2	7	4.3	6			
6	Our firm monitors the application of corporate governance principles and best practice to its particular circumstances.	1	7	5.4	3			
	Average			5.2				

5.7 Competitiveness

The fifth factor of best corporate governance practices is competitiveness. Respondents participating in the study were asked to give their answers on control factors of the best practice of corporate governance in their firms. Responses for the six elements considered are displayed in Table 5.7. The results indicate that participants recorded an average mean score of 5.2. This indicates that competitiveness factors are effective factors for best corporate governance practice.

As can be seen from Table 5.7, participants strongly agreed that their firms disclose the names of the board and the key executive directors in the annual report (mean 6.0), disclose the ownership of the major shareholders within the firm (mean 5.9), state the firm’s objectives and goals in the annual report (mean 5.6), articulate its role in economic growth (mean 5.3) and protect the interests of the minority shareholders (mean 5.2). The findings also show that the least important factor is, "evaluates and discloses the performance of the board and the management in the annual report" (mean 3.3).

With regard to whether there were any significant differences at the level of 5% ($p<0.05$) concerning the control factors of best practice of good corporate governance in Jordanian firms according to sector, the p-value= 0.176, which is more than the alpha level of 0.05, so this result suggests that there are no differences across the two sectors. Moreover, testing for significant differences as measured by the Kruskal Wallis test at the level of 5% ($p<0.05$) in terms of age (p-value= 0.492) and size (p-value= 0.740), showed no statically significant differences.

Table 5-7: Respondents' Answers for Competitiveness Critical Factors

No	Element : Competitiveness	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	Evaluates and discloses the performance of the board and the management in the annual report.	1	7	3.3	6	.176	.492	.740
2	States the firm's objectives and goals in the annual report.	3	7	5.6	3			
3	Discloses the ownership of the major shareholders within the firm.	2	7	5.9	2			
4	Discloses the names of the board and the key executive directors in the annual report.	2	7	6.0	1			
5	Articulates its role in the economic growth.	2	7	5.3	4			
6	Protects the interests of the minority shareholders.	2	7	5.2	5			
	Average			5.2				

5.8 Culture

The sixth critical factor in corporate governance is culture. The main goal of the related questions was to determine the features of the culture factor in Jordanian listed firms. Seven questions were considered, as displayed in Table 5.8. Participants recorded average mean scores of 3.9.

The findings in Table 5.8 show that participants ranked "firm has clear formal and informal polices", "firm clearly defines corporate responsibilities in relation to the environment in the annual report" and "firm business relationships rules are clearly defined and available to all" as the main factors, with means of 4.8, 4.7 and 4.2 respectively. Also, the results indicate that participants considered the three factors mentioned as more important than factors such "the ethical code is well documented and understood by employees", with a mean value 3.8. On the other hand, the least influential factors were "our firm clearly defines corporate responsibilities in relation to human rights in the annual report" and "in our firm, there is a statement about the consequences of violation of the code of ethics" with mean values of 2.8 and 2.9 respectively.

With regard to whether there were any significant differences at the level of 5% ($p<0.05$) concerning culture critical factors, according to sector (p-value= 0.442), age (p-value= 0.363) and size (p-value =0.31), the Man-Whitney and the Kruskal Wallis test results, shown in Table 5.8, indicate no statistically significant differences.

Table 5-8: Respondents' Answers for Culture Critical Factors

No	Element : Culture	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	In Our firm, the ethical code is well documented and understood by employees.	2	7	3.6	4	.442	.363	.310
2	In our firm business relationships rules are clearly defined and available to all.	2	7	4.2	3			
3	Our firm has clear formal and informal polices.	2	7	4.8	1			
4	Our firm clearly defines corporate responsibilities in relation to the environment in the annual report.	2	7	4.7	2			
5	Our firm clearly defines corporate responsibilities in relation to human rights in the annual report.	1	7	2.8	6			
6	In our firm, there is a statement about the consequences of violation of the code of ethics.	1	7	2.9	5			
	Average			3.9				

5.9 Commitment

One of the most important factors of best practice of good corporate governance is corporate commitment. Respondents who participated in the study were asked to give their opinions on corporate commitment in their firms, using a scale from 1 to 7. Six elements were considered, as displayed in Table 5.9.

The results indicate that participants recorded average mean scores of 4.0. This indicates that commitment factors are effective factors for best corporate governance practice. This outcome is supported by the ranking of the mean which positioned “the rights of stakeholders are respected” in first position in the analysis (mean= 5.1). Among the items recording the highest ranking and mean scores were, "institutional investors contact senior executive to exchange views and information" (mean 4.6), "there is a clear and transparent mechanism for stakeholders to obtain redress for violation of their rights" (mean 4.5), and "employees are allowed stock ownership or profit-share" (mean 4.0). Further, when respondents were asked if there was scope for adopting an executives’ share option and if employees were represented on the board, the weakest agreement level was associated with these items which recorded mean scores of 3.3 and 2.1 respectively.

The Man-Whitney test was carried out to identify sector (industrial and service) differences. The results, presented in Table 5.9 below, show a significance level of 0.18 which is greater than the alpha level of .05. This means that there are no significant differences across the two sectors. Furthermore, the Kruskal Wallis test revealed no statistically significant differences for this element according to companies’ age (p-value= 0.688) or size (p-value= 0.50). This means that all the firms have sound best practice and a balanced corporate governance system for this construct.

Table 5-9: Respondents' Answers for Commitment Critical Factors

No	Element : Commitment	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	The rights of stakeholders are respected.	1	7	5.1	1	.182		
2	There is a clear and transparent mechanism for stakeholders to obtain redress for violation of their rights.	1	7	4.5	3		.688	.500
3	Employees are represented on the board.	1	6	2.1	6			
4	Employees are allowed stock ownership or profit-share.	1	7	4.0	4			
5	There is scope for adopting an executive's share option.	1	7	3.3	5			
6	Institutional investors contact senior executive to exchange views and information.	1	7	4.6	2			
	Average			4.0				

5.10 Communication

Communication is rated as an important element in the corporate governance system. Eight elements were considered, as displayed in Table 5.10.

The overall results show that items relating to communication recorded an average mean score of 5.9. According to the ranking expressed in Table 5.10, "our firm discloses, in the annual report, the accounting standards adopted" was ranked first among items relating to communication in firms (mean 6.2). This was followed by "disclose information on the compensation for the board members and management team in the annual report" (mean 6.1).

"Discloses information about affiliated and subsidiary firm" (mean 6.0) and "firm discloses any interlocking directorships in the annual report" (mean 5.9) were ranked third and fourth respectively. While "discloses the number of board meetings held during the year" (mean 5 .8) was ranked fourth, followed by "there is a clear and transparent mechanism for stakeholders to communicate effectively with the firm" (mean 5.7), "our firm includes a section on corporate governance practices in the annual report" (mean 5.7) and "in our firm NEDs develop an understanding of the views of major shareholders" (mean 5.5).

As can be seen from Table 5.10, participants rated the items mentioned related to disclosing information, such as "firms discloses, in the annual report , the accounting standards adopted", the highest (mean value 6.2), compared to the rest of the items under communication. On the other hand, the least scored item was "our firm includes a section on corporate governance practices in the annual report" (mean 5.5).

The Man Whitney test was carried out to identify sector differences (i.e., industrial and service). The result in Table 5.10 shows the significance level was p-value=0.601. This is more than the alpha level of .05, so these results suggest that there is no difference in disclosure and transparency across the two sectors. Moreover, testing for significant differences as measured by the Kruskal Wallis test at the level of 5% ($p<0.05$) in terms of age (p-value= 0.03), and size (p-value= 0.053) resulted in significant differences as can clearly be observed by the reported p-value. Moreover, the mean rank results from the Kruskal Wallis test show values 56.17 and 70.56 for small and large firms. This shows that the respondents from large firms differed significantly from those representing smaller firms.

Table 5-10: Respondents' Answers for Communication Critical Factors

No	Element : Communication	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	Our firm includes a section on corporate governance practices in the annual report.	3	7	5.5	8	.601	.035	
2	In our firm NEDs, develop an understanding of the views of major shareholders.	3	7	5.7	7			.050
3	In our firm, We disclose information on the compensation for the board members and management team in the annual report.	3	7	6.1	2			
4	Our firm discloses any interlocking directorship in the annual report.	3	7	5.9	4			
5	Our firm discloses information about affiliated and subsidiary firms.	3	7	6.0	3			
6	Our firm discloses, in the annual report , the accounting standards adopted	3	7	6.2	1			
7	Our firm discloses the number of board meetings held during the year.	4	7	5.8	5			
8	In our firm, there is a clear and transparent mechanism for stakeholders to communicate effectively with the firm.	4	7	5.7	6			
	Average			5.9				

5.11 Conduct

Respondents participating in this study were asked to give their answers for conduct factors relating to best practice of good corporate governance in their firms. Six elements were considered, as displayed in Table 5.11.

Participants (firms) strongly agreed that there were strict guidelines for safety, health and the environment (mean 5.6), clear guidelines on privacy and data protection (mean 5.5), guidelines for serving as a director (mean 5.5), and guidelines regarding conflicts of interest (mean 5.4). There were also adequate procedures in place to guard against insider trading (mean 5.3). The findings show that the least important variable was “we have clear policy about waiver from the codes" (mean 4.0).

The Man-Whitney test results in Table 5.11 indicate no statistically significant differences concerning the conduct factors of best practice of good corporate governance in Jordanian firms according to sector (p-value= 0.869). Testing for significant differences as measured by the Kruskal Wallis test at the level of 5% (p<0.05) in terms of size (p-value= 0.01) resulted in significant differences as can clearly be observed by the reported p-value, while no statistically significant differences exist according to age (p-value= 0.288).

Table 5-11: Respondents' Answers for Conduct Critical Factors

No	Element : Conduct	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	There are guidelines for serving as a Director.	2	7	5.5	3	.869	.288	.010
2	There are adequate procedures in place to guard against insider trading.	3	7	5.3	5			
3	There are strict guidelines for safety, health and the environment.	2	7	5.6	1			
4	There are clear guidelines on privacy and data protection.	2	7	5.5	2			
5	There are guidelines regarding conflict of interest.	2	7	5.4	4			
6	We have clear policy about waiver from the Codes.	2	7	4.0	6			
	Average			5.2				

5.12 Conscience

One of the most important factors of the best practice of corporate governance is corporate conscience. Respondents who participated in the study were asked to give their opinions on corporate conscience in Jordanian firms, using a scale from 1 to 7. Five elements were considered, as displayed in Table 5.12. According to the ranking, “we maintain an independent relationship between our firm and the ‘recipient’ of the charitable contribution” was ranked first among items relating to the community care factor in Jordanian firms (mean 5.8), followed by “our firm participates in community development programmes” (mean 5.7), “in our firm we have a clear policy on implementing Corporate Social Responsibility” (mean 5.6) and “our firm is involved in charitable contribution” (mean 5.6), which were ranked second, third and fourth respectively, while “our firm sponsors educational and/or training programmes for the community” (mean 5.5) was ranked fifth.

The Man-Whitney test was carried out to identify sector (industrial and service) differences. The result presented in Table 5.12 shows a significance level of 0.311 which is greater than the alpha level of .05. This means that there are no significant differences in element 10 (conscience) across the two sectors. On the other hand, the Kruskal Wallis test revealed statistically significant differences in this element according to companies’ age (p-value= 0.012), and size (p-value= 0.03).

Table 5-12: Respondents' Answers for Conscience Critical Factors

No	Element : Conscience	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	Our firm participates in community development programmes.	2	7	5.7	2	.311	.0120	
2	In our firm we have a clear policy on implementing Corporate Social Responsibility.	2	7	5.6	3			.030
3	Our firm sponsors educational and/or training programmes for the community.	2	7	5.5	5			
4	Our firm is involved in charitable contribution.	2	7	5.6	4			
5	We maintain an independent relationship between our firm and the 'recipient' of the charitable contribution.	2	7	5.8	1			
	Average			5.6				

5.13 General Perception of Best Practice of Corporate Governance Contributing to Improving Firm Performance

The purpose of this construct is to present the effect of best practice of corporate governance on firm performance as perceived by the respondents. Respondents who participated in the study were asked to give their views using a scale from 1 to 7, where 1=strongly disagree, 2=disagree, 3=moderately disagree, 4=neutral, 5=moderately agree, 6=agree and 7=strongly agree. Six elements were considered, as displayed in Table 5.13. The results indicate that, generally, participants showed a strong level of agreement with regard to the factors listed, since all items recorded mean scores of 5.2 or above.

Participants (firms) strongly agreed that all of the items of best practice of corporate governance contribute to improving firm performance. According to the ranking expressed in Table 5.13, "separation between the position of CEO and Chairman" was ranked first followed by "a strong disclosure regime" (mean

5.8), “the existence of institutional investors” (mean5.7), “the use of board subcommittees” (mean 5.6), “the existence of independent NEDs” (mean 5.5) and “the small size of the board” (mean 5.2).

The Mann-Whitney test was carried out to identify sector (industry and service) differences. The results in Table 5.13 show the significance level (p-value=0.207) was not significant at α=0.05. Hence, it can be concluded that there is no real difference in agreement with the items between the two sectors. Testing for significant differences as measured by the Kruskal Wallis test at the level of 5% ($p<0.05$) in terms of age (p-value= 0.03), and size (p-value= 0.053) resulted in significant differences as can clearly be observed by the reported p-value. Moreover, the mean rank results from the Kruskal Wallis test show the values 56.17 and 70.56 for small and large firms. This shows that the respondents from large firms differed significantly from those representing smaller firms.

5-13: Respondents’ Answers Regarding Corporate Performance

No	Element : Performance	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	The small size of the board.	2	7	5.2	6	.207		
2	The existence of institutional investors.	2	7	5.7	3		.000	
3	Separation between the position of CEO and Chairman	2	7	5.9	1			.000
4	The existence of independent NEDs.	1	7	5.5	5			
5	The use of board subcommittees.	2	7	5.6	4			
6	A strong disclosure regime.	2	7	5.8	2			
	Average			5.5				

5.14 Factors Inhibiting the Best Practice of Corporate Governance in Jordan

This question was to find factors that could prevent best practice of corporate governance in Jordanian firms. Respondents to this research were requested to give their answers about factors preventing best practice of corporate governance in their firms. Participants were asked to point out their level of agreement with listed variables, using a scale from 1 to 7. Responses to this question are presented in Table 5.14. The results indicate that, generally, participants scored highly, on average, on all the elements mentioned as factors preventing best practice of corporate governance, with an average mean score of 5.3 out of 7. Among the items recording the highest ranking and mean scores were “lack of knowledge of board of directors about corporate governance principles” (mean 5.9) and “cost of applying corporate governance system” (mean 5.8) as the first and second key items preventing best practice of good corporate governance in Jordan.

In the current research, major shareholders were ranked as the third factor (mean 5.6). As can be seen from Table 5.14, participants considered the three factors mentioned as key critical factors, with scores of 5.9, 5.8 and 5.6 respectively for the factors “lack of knowledge of board of directors about corporate governance principles”, “cost of applying corporate governance system” and “major shareholders”, rather than factors such as “hierarchical structures of the firm” and “family ownership” (means 5.4 and 5.3 respectively). The lowest average scores overall were associated with “weakness of the legal environment for firms”, “tribal loyalties of the board” and “government intervention in firms” (means 5.3, 5.2 and 4.3, respectively).

Bivariate analysis was undertaken to examine whether there were differences in the responses with regard to industry, age and size of firms. The Man-Whitney and Kruskal Wallis test results in Table 5.14 indicate no statistically significant differences existed across the two sectors, size or the age of the firm which is shown by the reported p-value.

Table 5-14: Respondents' Answers for Factors Inhibiting Best Practice of Good Corporate Governance in Jordan

No	Element : Competence	Min	Max	Mean	Rank	P Value Sector	P Value Age	P Value Size
1	Weakness of the legal environment for firms.	1	7	5.2	6	.650	.890	.870
2	Lack of knowledge of board of directors about corporate governance principles.	2	7	5.9	1			
3	Tribal loyalties of the board.	2	7	5.1	7			
4	Government intervention in firms.	2	7	4.3	8			
5	Major shareholders.	2	7	5.6	3			
6	Cost of applying corporate governance system.	1	7	5.8	2			
7	Family ownership.	2	7	5.3	5			
8	Hierarchical structures of the firm.	2	7	5.4	4			
	Average			5.3				

5.15. Factor Analysis

In order to determine the main critical factors for implementing best practice of corporate governance in Jordanian listed firms, factor analysis was used as a data reduction method. The 10 constructs were subject to principal components analysis (PCA) using SPSS version 16. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was carried out, with each factor exceeding the recommended value of 0.6 (Kaiser, 1974). To aid in the interpretation of the factors, Varimax rotation with Kaiser normalisation was performed (Bryman & Cramer, 2002, p.265). In addition, scale reliability was reported for each factor analysis conducted. Then, regression analysis was conducted.

5.15.1 Analysis of Constitution Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the constitution factor. Four questions remained after the analysis was conducted. Those questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 56% of the variance in the factor with an eigenvalue of 2.24. Three questions were deleted from the analysis as they did not achieve the acceptable threshold of 0.60, and by deleting them the conceptual meaning of the remaining questions remained acceptable in terms of measuring the concept of constitution.

Table 5.15 gives an overview of the remaining questions of the constitution concept. However, questions five, six, and seven were deleted from the analysis. Scale reliability (Cronbach's Alpha) for the final factor analysis for the constitution concept was reported, and achieved as high as 0.734, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .732 which exceeded the minimum acceptable level of .5. In addition, the Bartlett’s test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-15: Constitution Factor Analysis

No	Factor : Constitution	Factor loadings
1	There is a formal and transparent procedure for the appointment of new directors to the board.	0.727
2	The roles of the Chair and the CEO are split between different directors.	0.751
3	Directors are required to disclose any matters that may affect the firm.	0.706
4	All board committees are composed of executive and non executive directors (NEDs).	0.805
	Total Variance explained	56%
	Eigenvalues	2.24
	kmo	0.732
	Bartlett's test of sphericity	0.000

5.15.2 Analysis of Control Factor

Varimax factor rotation on the variables that are supposed to measure the control factor was performed. Only one question was deleted; "our firm frequently changes the corporate auditor". This question did not achieve the acceptable threshold for factor loading and by deleting it the conceptual meaning of the remaining questions were still acceptable in terms of measuring the concept of control.

Seven questions remained after the analysis was conducted. Those questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 43.24% of the variance in the factor with an eigenvalue of 3.45. Table 5.16 gives an overview of the remaining questions of the control concept. Scale reliability (Cronbach's Alpha) for the final factor analysis for the control concept was reported and achieved as high as 0.801, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .830

and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-16: Control Factor Analysis

No	Factor: Control	Factor loadings
1	Our firm links rewards to long term performance.	0.712
2	In our firms directors and auditors explain their reporting responsibilities in the annual report.	0.603
3	Our firm discloses, in the annual report, whether the auditor provides non auditing services or not.	0.656
4	Our firm directors are not involved in determining their own remuneration.	0.682
5	Our firm reviews the effectiveness of the internal control system.	0.713
6	Our firm describes the work of the audit committee in the annual report.	0.711
7	Our firm identifies in the annual report the key risk areas of the business and the strategies to manage them.	0.694
	Total Variance explained	43.24%
	Eigenvalues	3.459
	kmo	.830
	Bartlett's test of sphericity	.000

5.15.3 Analysis of Competence Factor

Varimax factor rotation on the variables that are supposed to measure the competence factor was performed. No items were deleted from the analysis as they all scored above the acceptable threshold of 0.60 for factor loadings explaining around 57.13% of the variance in the factor with an eigenvalue of 2.857. Table 5.17 gives an overview of the questions of the competence concept. Scale reliability (Cronbach's Alpha) for the final factor analysis for the Competence concept was reported and achieved as high as 0.810, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .823 and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-17: Competence Factor Analysis

No	Factor : Competence	Factor loadings
1	Trains new directors to read and analyze the financial statements.	0.698
2	Enlightens new directors about the long/short term objectives and mission of the firm.	0.742
3	Updates its directors about the trends and new global issues of corporate governance.	0.765
4	Reviews the proper technology and the system used in the firm to achieve the firm's goals.	0.777
5	Evaluates its process and transactions and discloses the result in the annual report.	0.793
	Total Variance explained	57.13%
	Eigenvalues	2.857
	Kmo	.823
	Bartlett's test of sphericity	.000

5.15.4 Analysis of Compliance Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the compliance factor. All questions remained after the analysis was conducted except one. Those questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 58.84% of the variance in the factor with an eigenvalue of 2.94. One question was deleted from the analysis as it did not achieve the acceptable threshold of 0.60, and by deleting it the conceptual meaning for the remaining questions remained acceptable in terms of measuring the concept of compliance.

Table 5.18 gives an overview of the remaining questions of the compliance concept. However, the following question was deleted from the analysis, "our firm applies a clear mechanism for the board of directors' retirement and resignation". In addition, scale reliability (Cronbach's Alpha) for the final factor analysis for the compliance concept was reported and achieved as high as 0.823, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .841 and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-18: Compliance Factor Analysis

No	Factor: Compliance	Factor loadings
1	In our firm, audit committee ensures compliance with law and assures an implementation of the board's decisions.	0.779
2	In our firm, audit committee works independently from top management.	0.752
3	Our firm implements the one share/one vote system in terms of directors' election.	0.733
4	Our firm reviews and discloses the equality of employment opportunities in the annual report.	0.757
5	Our firm monitors the application of corporate governance principles and best practice to its particular circumstances.	0.812
	Total Variance explained	58.9%
	Eigenvalues	2.942
	kmo	.841
	Bartlett's test of sphericity	.000

5.15.5 Analysis of Competitiveness Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the competitiveness factor. All questions remained after the analysis was conducted except two. The accepted questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 63.37% of the variance in the factor with an eigenvalue of 2.53. Two questions were deleted from the analysis as they did not achieve the acceptable threshold of 0.60, and by deleting them the conceptual meaning for the remaining questions remained acceptable in terms of measuring the concept of competitiveness.

Table 5.19 gives an overview of the remaining questions of the competitiveness concept. However, the following questions were deleted from the analysis: "evaluates and discloses the performance of the board and the management in the annual report" and "protects the interests of the minority shareholders". In addition, scale reliability (Cronbach's Alpha) for the final factor analysis for the competitiveness concept was reported and achieved as high as 0.806, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at 0.774 and exceeded the minimum acceptable level of .5. In addition, the Bartlett’s test of sphericity was significant ($\rho = .000$). These results show that factor analysis was suitable for the data.

Table 5-19: Competitiveness Factor Analysis

No	Factor : Competitiveness	Factor loading
1	States the firm's objectives and goals in the annual report.	0.736
2	Discloses the ownership of the major shareholders within the firm.	0.822
3	Discloses the names of the board and the key executive directors in the annual report.	0.858
4	Articulates its role in the economic growth.	0.762
	Total Variance explained	63.37%
	Eigenvalues	2.535
	kmo	.774
	Bartlett's test of sphericity	.000

5.15.6 Analysis of Culture Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the culture factor. Three questions remained after the analysis was conducted and three were excluded. The accepted questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 49.45% of the variance in the factor with an eigenvalue of 1.48. Three questions were deleted from the analysis as they did not achieve the acceptable threshold 0.60, and by deleting them the conceptual meaning of the remaining questions were still acceptable in terms of measuring the concept of culture.

Table 5.20 gives an overview of the remaining questions of the culture concept. However, the following questions were deleted from the analysis: "in our firm, the ethical code is well documented and understood by employees", "our firm has clear formal and informal polices" and “our firm clearly defines corporate responsibilities in relation to the environment in the annual report". In addition, scale reliability (Cronbach's Alpha) for the final factor analysis for the culture concept was reported and achieved as high as 0.655, an indication of acceptable factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .568 and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-20: Culture Factor Analysis

No	Factor: Culture	Factor loadings
1	In our firm business relationships rules are clearly defined and available to all.	0.711
2	Our firm clearly defines corporate responsibilities in relation to human rights in the annual report.	0.799
3	In our firm, there is a statement about the consequences of violation of the code of ethics.	0.799
	Total Variance explained	49.45%
	Eigenvalues	1.484
	kmo	.568
	Bartlett's test of sphericity	.000

5.15.7 Analysis of Commitment Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the commitment factor. Three questions remained after the analysis was conducted and three were excluded. The accepted questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 69.65% of the variance in the factor with an eigenvalue of 2.09. Three questions were deleted from the analysis as they did not achieve the acceptable threshold of 0.60, and by deleting them the conceptual meaning for the remaining questions remained acceptable in terms of measuring the concept of commitment.

Table 5.21 gives an overview of the remaining questions of the commitment concept. However, the following questions were deleted from the analysis: "employees are represented on the board", "employees are allowed stock ownership or profit-share" and "there is scope for adopting an executive's share option". In addition, scale reliability (Cronbach's Alpha) for the final factor analysis of the commitment concept was reported and achieved as high as 0.782, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .732 and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-21: Commitment Factor Analysis

No	Factor : Commitment	Factor loadings
1	The rights of stakeholders are respected.	0.817
2	There is a clear and transparent mechanism for stakeholders to obtain redress for violation of their rights.	0.855
3	Institutional investors contact senior executive to exchange views and information.	0.832
	Total Variance explained	69.65%
	Eigenvalues	2.09
	kmo	.699
	Bartlett's test of sphericity	.000

5.15.8 Analysis of Communication Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the communication factor. Four questions remained after the analysis was conducted and four were excluded. The accepted questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 55.47% of the variance in the factor with an eigenvalue of 2.21. Four questions were deleted from the analysis as they did not achieve the acceptable threshold of 0.60, and by deleting them the conceptual meaning of the remaining questions remained acceptable in terms of measuring the concept of communication.

Table 5.22 gives an overview of the remaining questions of the communication concept. However, the following questions were deleted from the analysis: "our firm discloses any interlocking directorship in the annual report", "our firm discloses information about affiliated and subsidiary firms", "Our firm discloses, in the annual report, the accounting standards adopted" and "In our firm, there is a clear and transparent mechanism for stakeholders to communicate effectively with the firm". In addition, scale reliability (Cronbach's Alpha) for the final factor analysis of the communication concept was reported and achieved as high as 0.730, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .721 and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant ($\rho = .000$). These results show that factor analysis was suitable for the data.

Table 5-22 : Communication Factor Analysis

No	Factor : Communication	Factor loadings
1	Our firm includes a section on corporate governance practices in the annual report.	0.700
2	In our firm NEDs, develop an understanding of the views of major shareholders.	0.838
3	In our firm, We disclose information on the compensation for the board members and management team in the annual report.	0.736
4	Our firm discloses the number of board meetings held during the year.	0.696
	Total Variance explained	55.47%
	Eigenvalues	2.21
	kmo	.721
	Bartlett's test of sphericity	.000

5.15.9 Analysis of Conduct Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the conduct factor. All questions remained after the analysis was conducted except one. Those questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 54.51% of the variance in the factor with an eigenvalue of 2.72. One question was deleted from the analysis as it did not achieve the acceptable threshold of 0.60, and by deleting it the conceptual meaning for the remaining questions remained acceptable in terms of measuring the concept of conduct.

Table 5.23 gives an overview of the remaining questions of the conduct concept. However, the following question was deleted from the analysis, "we have clear policy about waiver from the codes". In addition, scale reliability (Cronbach's Alpha) for the final factor analysis for the conduct concept was reported and achieved as high as 0.790, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .788 and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-23 : Conduct Factor Analysis

No	Factor : Conduct	Factor loadings
1	There are guidelines for serving as a Director.	0.768
2	There are adequate procedures in place to guard against insider trading.	0.607
3	There are strict guidelines for safety, health and the environment.	0.759
4	There are clear guidelines on privacy and data protection.	0.753
5	There are guidelines regarding conflict of interest.	0.791
	Total Variance explained	54.51%
	Eigenvalues	2.72
	kmo	.788
	Bartlett's test of sphericity	.000

5.15.10 Analysis of Conscience Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the conscience factor. All questions remained after the analysis was conducted. The accepted questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 56.72% of the variance in the factor with an eigenvalue of 2.83. Table 5.24 gives an overview of the questions of the conscience concept. In addition, scale reliability (Cronbach's Alpha) for the final factor analysis of the conscience concept was reported and achieved as high as 0.807, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .839 and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-24 : Conscience Factor Analysis

No	Factor : Conscience	Factor loadings
1	Our firm participates in community development programs.	0.764
2	In our firm we have a clear policy on implementing Corporate Social Responsibility.	0.709
3	Our firm sponsors educational and/or training programs for the community.	0.736
4	Our firm is involved in charitable contribution.	0.821
5	We maintain an independent relationship between our firm and the "recipient" of the charitable contribution.	0.749
	Total Variance explained	56.72%
	Eigenvalues	2.83
	kmo	.839
	Bartlett's test of sphericity	.000

5.15.11 Analysis of Performance Factor

Factor analysis was performed using Varimax factor rotation on the variables that are supposed to measure the performance factor. All questions remained after the analysis was conducted. The accepted questions scored above the acceptable threshold of 0.60 for factor loadings explaining around 55.61% of the variance in the factor with an eigenvalue of 3.33. Table 5.25 gives an overview of the questions of the performance concept and the factor loadings. In addition, scale reliability (Cronbach's Alpha) for the final factor analysis of the performance concept was reported and achieved as high as 0.839, an indication of good factor reliability. Before going further in the factor analysis, the factorability of the data was examined. The value of the overall KMO was normal at .835 and exceeded the minimum acceptable level of .5. In addition, the Bartlett's test of sphericity was significant (ρ = .000). These results show that factor analysis was suitable for the data.

Table 5-25 : Performance Factor Analysis

No	Factor : Performance	Factor loadings
1	The small size of the board.	0.688
2	The existence of institutional investors.	0.779
3	Separation between the position of CEO and Chairman.	0.753
4	The existence of independent NEDs.	0.755
5	The use of board subcommittees.	0.689
6	A strong disclosure regime.	0.803
	Total Variance explained	55.6%
	Eigenvalues	3.33
	kmo	.835
	Bartlett's test of sphericity	.000

5.16 Regressions with ROA and Performance as Dependant Variables

The effect of corporate governance on performance was tested using a multiple regression model. The form of the initial regression model employed in this study is:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + ... + \beta_k x_k + errors$$

For example, in the equation above, the dependent variable Y will be the performance of the firm and the independent variables, xi, i=1, …, 10, will be the 10 constructs of corporate governance critical factors as defined earlier in Chapter Three. Subsequently, the initial regression model, based on the ECBPM proposal, is given by:

$$\begin{aligned} \textbf{Performance} = {} & \beta_0 \textbf{Age} + \beta_1 \textbf{Size} + \beta_2 \textbf{Sector} + \beta_3 \textbf{Constitution} + \beta_4 \textbf{Control} + \\ & \beta_4 \textbf{Competence} + \beta_5 \textbf{Compliance} + \beta_6 \textbf{Competitiveness} + \\ & \beta_7 \textbf{Culture} + \beta 8 \textbf{Commitment} + \beta_9 \textbf{Communication} + \\ & \beta_{10} \textbf{Conduct} + \beta_{11} \textbf{Conscience} + \textbf{errors} \end{aligned}$$

The researcher fitted this model to the data of both the dependent and independent variables using a backward elimination approach, where the full model is fitted and the variable which is least significant is removed from the model (Kutner et al., 2004). This process continues until the most parsimonious model is found, which has all the significant remaining independent variables present. This model is then tested for goodness-of-fit, and the model assumptions are validated.

Step 1 The Full Model

According to Table 5-27 the model has an adjusted R2 of 0.232. This means that the model explains almost 23% of the variation in the performance amongst sampled firms. Furthermore, the F statistic (.000) indicates that that the null hypothesis that all coefficients = 0 can be rejected. This means that the independent variables are jointly significant in explaining the performance of the firms.

During the regression procedure, multicollinearity was assessed by the variance inflation factor (VIF). The VIF assesses multicollinearity for each individual variable. Gujarati (2003) suggested the following criteria for judging the VIF statistics:

- If the VIF of a variable is greater than 10, then the variable is considered highly collinear.

In the current study, the VIF for the variables investigated was well below the accepted levels suggested by Gujarati (2003), where the VIF of all variables ranges between 1.069 and 2.594, with an average of 1.395. These statistics are shown as part of the summary tables, Table 5.24, of the regression results. Based on the results of the test performed, it can be concluded that multicollinearity was not problematic in the current study.

With respect to control variables, the estimation results presented in Table 5.26 shows no effect of size, age or sector on the firm’s performance where all estimated coefficients were found to be statistically insignificant.

In step one, the initial full model is fitted, and the result is presented in Table 5.26. The regression equation is:

Performance = -2.353 + -0.135 Age + 0.234 Size+ 0.102 Sector+0.095 Constitution + 0.003 Control+ -0.011 Competence + 0.153 Compliance + 0.027 Competitiveness+ -0.067 Culture + 0.042 Commitments + 0.038 Communication+ 0.032 Conduct + 0.144 Conscience +errors

From this, we can see that control, competence, competitiveness, culture, communication, commitment, conduct, size, age or sector do not make significant contributions to the model, and so they will be removed in the next step.

The analysis uses return on asset (ROA) as the dependent variable. In the regression analysis only three factors were significant in having effects on ROA. The factors are constitution, compliance and conscience. Standardised coefficients are reported as the following: constitution (beta value = 0.095), compliance (beta value = 0.153) and conscience (beta value = 0.144). The final results are presented in Table 5.26. The regression equation is:

Performance =-2.353 + 0.095 Constitution+ 0.153 Compliance+ 0.144 Conscience

Table 5-26: Summary of the regression results

	β	SE	T	P	VIF
Constant	-2.353	0.044	-53.540	0.000	1.194
Constitution	0.095	0.045	2.102	0.038	1.186
Compliance	0.153	0.047	3.249	0.002	1.069
Conscience	0.144	0.046	3.124	0.002	1.260
Control	0.003	0.049	0.068	0.946	1.182
Competence	-0.011	0.046	-0.234	0.816	1.109
Competitiveness	0.027	0.048	0.550	0.584	1.111
Culture	-0.067	0.048	-1.418	0.159	1.289
Commitment	0.042	0.048	0.872	0.385	1.359
Communication	0.038	0.047	0.802	0.425	1.176
Conduct	0.032	0.051	0.630	0.530	2.594
Size	0.234	0.074	1.737	0.086	2.520
Age	-0.135	0.094	-1.019	0.311	1.091
Sector	0.102	0.094	1.172	0.244	1.194

Table 5-27 : Model Summary

R	R2	Adjusted R2	F	Sig.
.502	0.252	0.232	3.676	.000(a)

Step 2 The Final Model

The final reduced model with control, competence, competitiveness, culture, communication, commitment, conduct, size, age and sector removed—as they are non-significant—is presented in Table 5.28. The researcher reran the regression with only the significant variables, the results estimated coefficient on constitution, compliance and conscience critical factor of CG were found to be statistically significant at 5% level on the regression model. The regression equation is:

Performance =.110+ 0.016 Constitution+ 0.014 Compliance+ 0.018 Conscience

5-28: Summary of the regression results

	β	SE	T	P	VIF
Constant	.110	.006	19.885	.000	1.194
Constitution	.016	.006	2.883	.005	1.186
Compliance	.014	.006	2.313	.023	1.069
Conscience	.018	.006	3.118	.002	1.260

Table 5-29 : Model Summary

R	R2	Adjusted R2	F	Sig.
.483	0.233	0.212	11.046	.000(a)

5.17 Summary

The findings of this study indicate that Jordanian firms, especially large and old ones, apply CG systems. This chapter has presented a descriptive analysis of the independent variables in the current study. The responding firms belonged to two sectors, namely the industry and service sectors. These firms varied in their size from small to large, though small and medium size firms dominated the sample

A number of topics have been discussed. First, a brief descriptive overview of the statistics about the companies participating in the survey has been given. Then, the mean levels of all the questions in the questionnaires were presented and the questions with the highest mean levels were highlighted. Factor analysis was conducted on each of the ten factors of good corporate governance. In addition, performance factor analysis was conducted. A number of questions were excluded from the process as they did not achieve the minimum threshold acceptable for factor loadings. The reliability of each scale was reported as all of the scales reported achieved an acceptable reliability score. Finally, regression analysis was conducted using the dependent variable, financial performance (ROA). The results show that compliance, conscience and constitution factors were significant on the ROA regression model. Actually, without taking into account these critical factors, the corporate governance system in Jordan will definitely fail.

CHAPTER SIX

6 INTERVIEW RESULTS

6.1 Interview Results and analysis

6.2 Introduction

This chapter aims to explore the nature of current CG practices in Jordanian listed firms. It also seeks to identify the current barriers facing the application of the Jordanian CG code. In an attempt to explore these issues a series of semi-structured interviews were conducted with Jordanian regulators and managers in a number of Jordanian listed firms .Thus, this chapter is divided into two parts. Part one examines the views of managers while part two examines the of views regulators. Each part divided into section. The first section concentrates on current CG practices within Jordanian listed firms. The second section deals with the current barriers facing the application of the CG Code for shareholding companies listed on the Amman Stock Exchange. The remainder of the chapter ends with major findings derived from the analysis of semi structured interviews. A summary of this chapter findings are presented at the end. The following presents participants' demographic details.

6.3 General Information

The interviews were accomplished with seven managers and four regulators. Each interview took, on average, 60 minutes. Table 6.1 offer some important information regarding the interviewees. Table 6.1 presents that the organisational positions qualifications and experience of interviewees are among the most critical factors that can be relied upon to achieve high quality information. Thus, more reliable or high quality information is expected. General information about these participants is shown in Table 6.1.

Concerning participants ‘qualification two studied in the US, two others studied in Jordan and three studied in the UK and Egypt. Concerning work experience, two have experience of more than 15 years three others have experience of more than 20 years; while the two remaining have more than 25 years of experience. The second group of interviewees were from the Jordan securities commission (JSC), particularly, the Capital Market Institutions Monitoring Department and disclosure Department. They were a manger and his deputy. Three of them held a Master in Economics and Accounting, whereas the other held a Bachelor degree in Banking and Finance. All of them had nine years of experience or more.

6-1 Details of Interviewees

Managers - Listed firms			
No	Interviewee’s Position in firm	Qualifications Level and Place	Experience-Years
1	General Manger and member of the board of directors	MBA and Master in Engineering - USA	30
2	General Manger and member of the board of directors	MSc in Finance -UK	23
3	Financial Manager	Master in Accounting-Jordan	17
4	Financial Manager	CPA-USA	26
5	Financial Manager	MSc in Accounting-UK	21
6	Manger of Internal Auditing Department	Bachelor un Accounting- Egypt	28
7	Deputy Director of Finance	Bachelor in Accounting and Finance-Jordan	15
Regulators- Jordan securities commission			
1	Director of Capital Market Institutions Monitoring Department	Master in Financial Markets-Jordan	19
2	Deputy of Capital Market Institutions Monitoring Department	Master in Economics-Jordan	14
3	Director of disclosure department	Master degree in	22

		Accounting-USA	
4	Deputy of disclosure department	Bachelor in Banking and Finance-Jordan	9

6.4 Analysis of Interviews with Managers

This part seeks to examine the views of the Jordanian regulators in relation to identifying and mitigating barriers specifically with regard to the introduction of the CG Code for shareholding companies listed on the Amman Stock Exchange.

6.4.1 The Current Practice of Corporate governance

The first part of interview includes participants' information about current CG practices of Jordanian listed firms and the main barriers affecting CG practices. Generally, CG mechanisms consist of stockholder rights, disclosure and transparency, responsibilities of BOD's and board committees (OECD, 2004; Saidi, 2004; McGee, 2008; Burton et al., 2009).Thus, the analysis of participants' responses to these issues is presented and examined in the following subsections.

6.4.1.1 The Protection of Shareholder Rights

OECD (2004) suggested that the CG framework should protect the rights of stockholders to elect members of the BODs, to get pertinent information on the firm on regularly and to vote in the Annual General Meeting (AGM).Thus, participants were asked to provide their perception on the implementation of shareholders' rights in Jordanian listed firms regarding vote at AGM, as a general manager emphasised that all stockholders have the right to vote at the AGM. He stated:

"Certainly, all shareholders have a legal right to vote at the AGM". Another added *"As matter of fact, all stockholders have the right to vote at the AGMs".*

Regarding stockholders' rights to obtain information, all participants argued that every stockholder has the right to obtain information regarding the firm's financial and non financial operations. The following statements from managers may clarify this point:

"In general, investors and stockholders have the right to obtain relevant information. At the same time, they do not have the right to know any private information".

This finding align with the results found by Milan (2007), who found that stockholders should be informed of all the details concerning stockholders meetings,

Concerning profit sharing, Managers pointed out:

"Our firm paid 8% of the total net income. The dividend distribution policy is one of the duties and responsibilities of the BOD's before being offered to the assembly".

With regard to the right to attend and participate at the AGM, OECD (2004) supports this point that stockholders have the right to vote at the assembly meeting. All the firms tend to employ the rules of Jordanian commercial law of rights regarding stockholders at the AGM. This is consistent with suggestion made by the OECD (2004).

6.4.1.2 Non executive directors

One important issue in CG is NEDs. According to Hermalin and weisbach (1991) provides the control system for firms. In other words, NEDs are seen as the check system. Further, they play as controller of management's performance (Pettigrew and McNultty, 1995; Mak, 1996). The Jordanian law forces Jordanian firms to appoint an audit committee from NEDs (not fewer than three) as a link between management and external accountants. This is a good step to meet OECD (2004) recommendation that the BODs should include a minimum of three NEDs who are able to influence the board's decisions.

Managers were asked to state factors they thought affect the appointment of NEDs in Jordanian firms. The majority of managers agreed that global business contacts and experience were important factors influencing the appointment of NEDs in these firms. Some interviewees considered them as some of the most important factors. A participant said:

"I do believe that global business contacts and experience were important factors influencing the appointment of NEDs in Jordanian firms."

Another added:

"I think that business contacts play an outstanding role in the process of appointing and selecting NEDs."

Also some managers added another important factor, personal qualities and attributes and not afraid to speak up. One, participant expressed his opinion as follows:

"Yes, there are important criteria, such as strong and effective personalities. In my view, if NEDs have weak personalities, despite their management skills, qualifications and experiences, they will be unable to impose their opinions and viewpoints."

This result was similar to that reported by Hussain and Mallin (2003). They investigated the dynamics of CG in Bahrain, by testing the board structures of firms in the country. They found key factors affected on the appointment of NEDs were business experience, reputation and relevant skills. From the above we can say that experience, possessing global business contacts skills and professional qualifications play an important role in determining the appointment of NEDs in Jordanian firms.

Interviewees were asked to give their opinion if CG policy in Jordan will lead to an increase in the number of NEDs. Generally, they agreed on their presence through the Code that requires all Jordanian firms to appoint NEDs, but the current situation needs more improvements. This findings supported by the findings reported in the PWC Survey (1997) that indicated that seventeen percent of firms had two, twenty three percent had three, and sixty percent had more than three NEDs. One participant commented:

"I expect if we adopt a strong system of governance in Jordan, this will lead to increase the number of NED's in listed firms."

"The CG Code for Shareholding Firms Listed on the Amman Stock Exchange *declares there should be at least three NEDs in those firms. Their function is to observe the firm's BOD's administration. This will increase shareholders' and stakeholders' confidence in the firm and will attract local and foreign investors. "*

Some interviewees suggested that NEDs play an important role inside the firm. A participant stated:

"In my view, NEDs play a significant role only in the large firms, such as communications, mining, and electricity. They supervise the work both the firm administration and the board of directors. They also study all the present projects that will be undertaken by the firm in the future and ascertain their suitability to firm policy. "

The above results support those obtained by Dahya et al., (2002) found that most firms in China in their study recognised that the supervisory board falls into one of the following types: a board that does nothing or a board that merely provides advice.

Concerning the separation the two positions of Chairman and CEO, most firms separate positions. The following point of views may clarify this issue: *“Of course, the position of the CEO and Chairman are totally separated". “The* CG Code for Shareholding Firms Listed on the Amman Stock Exchange *recommended full separation between that the positions of chairman and the executive manager on the BODs"*

These findings are in line with the results of Black et al. (2008), which found that most Brazilian firms separated the position of CEO /Chairman. These results are also in line with common CG recommendations (OECD, 2004). However, these results go against the findings of Abd-Rahman (2008), who found most Egyptian listed firms as having no separation the position of Chairman/CEO. Also, the participants were asked to give their opinion on the extent to which the boards of their firms carried out the following tasks and responsibilities referred to in the CG Code for Shareholding Firms Listed on the Amman Stock Exchange: issuing rules specifying the responsibilities of the BODS; setting the firm’s objective; evaluating performance of the management rules identifying the relationship with different stakeholders and reviewing the firm’s internal policies.

Concerning the general rules specifying the responsibilities of the BODs are well defined by the CG Code for Shareholding Firms Listed on the Amman Stock Exchange according to the interview data. However, some interviewees assured the need for written rules which were requested by external partner. Some interviewees stated:

"There are many rules stated in Jordanian corporate governance code, which explain the role of the BOD’s and set out the responsibilities and tasks

assigned to the board member".

"Frankly, I can say there are no rules, but the BODs are effectively to prepare a draft which identifies its duties."

With regard to setting the Firm's objectives and according to the interview data, the majority of firms declared that their BODs play a significant role in setting the firm's objectives .A general manger stated on this issue:

"Actually, our BODs took a significant step in preparing a package of goals and strategies, as I know this is one of the main functions of the BODs".

In addition, a financial manager stated:

"In fact, the BODs members are key players in deciding the objectives of the firm as well as the means of achieving these goals and objectives".

This similar to the results made by the Cadbury Report (1992); OECD (2004); Solomon et al. (2003) and Gupta, (2008) who found that BODs duties are to decide the direction of the firm through clarifying its goals and strategies. On the other hand, a Deputy Manager argued that the BODs did not play a significant role in setting the firm's objectives. This task was primarily played by the CEO, while the BODs role was to adopt or adapt these objectives. He stated:

"In our firm, it is the CEO who decides all objective and tries to convince the BODs of that. Yes, I understand that all the tasks that should be done by the BODs are accomplished by the CEO because of his knowledge of many practical side of the work".

These findings are in accordance with the findings of Petra (2005), who recognised two key features that help the BODs accomplish its duties: having reliable and strong BODs.

With regard to evaluating performance of the management, the participants assured that performance of the management was evaluated by

BODs. A participant puts it in the following terms.

"Yes, the BOD's evaluate the executive management using many financial and non-financial indicators".

This finding is in accordance with that supported by Black et al. (2008). They affirmed the important role played by the BODs members in appraising performance of the management. Moreover, the findings consistence with the results of Al-Ajlan,(2005), who investigated the duties of the BODs in Saudi Arabia firms. He found that there was a mixture of opinions among the respondents in relation to whether BODs in Saudi Arabia firms were really monitoring and the management's performance.

Concerning policies are identifying the relationship with different stakeholders; the information gained from participants confirmed that all firms do not have such policies. Hence, some respondents declared that their firms were functioning according to Jordanian laws (for instance commercial law), which specified the right of all stakeholders. The main reason behind the lack of policies was the Jordanian business environment had recently moved toward privatisation. Some extractions from participants clarify these points:

"The firm operates in accordance with a set of regulation to identify and protect stakeholders' rights. In fact, a lot of concepts need to be explained to keep right's of stakeholder ".

"Unfortunately, there are no regulations that clarify such relations with different stakeholders; however the BOD's relatively aware that stakeholders are the heart of a firm's interest. Hence, it executes a set of everyday works that maintains their interest and rights ".

"As I declared previously, there is no detailed code for CG for the stakeholders, but in general members of the BODs have relevant guidelines".

These results are in accordance with the suggestions made by the OECD (2004), that the rights of stakeholders should be protected by law. Further, this is consistent with Letza et al. (2004), who studied the accountability of stakeholders. They affirmed that since the community is probable to be influenced by firm's operations, firms should extend its accountability to community. Additionally, Collier (2008) assured that stakeholders have influence on firms; therefore, they need appreciation from the management of the firm.

Regarding reviewing the firm's internal policies, the information gained from participants indicated that the internal policy was one of the main duties of the BODs. A participant stated that:

"The BODs duties include monitoring the firm's internal policies ".

Moreover, a participant stated that:

"Generally, the BODs review both financial and non-financial policies".

Some firms employ specialists to perform this duty. This was confirmed by a participant:

"It is common that our firm frequently reviews the internal policies with the help of experts, if needed ".

It was also clear that some firms examine their internal policies according to economic circumstances. According to a participant:

"The firm reviews internal policies always depend on the economic circumstances".

With regard to Internal Control System, respondents shown that they have an effective internal control system (ICS). As a director of Internal and auditing department argued:

"Well, I do believe the ICS must be developed not in our firm but in all firms in the country".

Participants were solicited whether their firm has an auditing unit. The participants assured that it was useful having internal auditors. All participants argued that the unit has full autonomy and the internal auditors report to the audit committee and BODs. A manager said:

"Our internal auditing unit is totally managed by a qualified accountant who report to BODs."

A manager explained:

"The auditing unit works under the BODs supervision and auditing committee and has many duties concerning financial supervision. Moreover, the auditors are totally independently supervised by the Chief Executive Officer".

6.4.1.3 Conflict of Interest and committees

Agency problem is the conflict of interest between mangers and shareholders, and it appears when the managers ignore the benefits of shareholders (Mallin, 2007).The majority of participants mentioned that their firms have no written guidelines for the executives regarding this issue. In fact the staff and the executives are guided by some regulations, which already exist in firms' law. Though, some participants stated that the lack of written guidelines was as a result of the idea of CG is somehow relatively new. As a manager said:

"The concept of corporate governance, hence, it is still at the dawn stage for such guidelines ".

In addition, a board member and general manager stated:

“No worries, as corporate governance is a new idea for Jordan. There are similar regulations on what to be done by the staff “.

On the other hand, a manger claimed that they have written guidelines concerning conflict of interest. He said:

"As I mentioned before, there is a control system in our firm. in fact, there are by-laws that organise and control the relations with external parties ".

All participants also claimed that their firm do not have written code of conduct which could follow. This because the fact that CG is new in Jordan. A general manager stated:

"... As a result of poor experience with the concept of CG, these dilemma are still in one way or another not of interest ".

This in line with the results of Dahawy (2008), who found that CG in Egypt, was weak as a result of the lack of experience about the benefits and needs of such system. Moreover, these findings also in line with the results of Duca, Gherghina et al. (2007), who found that some firms in Romania had no a written code of ethics officially determining the responsibilities of BODs and directors.

Concerning audit committees all participants confirmed that they have an audit committee. As a manger in a firm said:

"*Sure, we have an audit committee and it includes at least three BODs members and this committee is chaired by expert accountant”.*

However, only one participant said that their firm did not have an audit committee. They justify that this may be because of the fact that CG is just in early stage in Jordan and that many firms are not aware of its benefits.

This consistent with the results found by Dahawy (2008); Gupta (2008), and Black et al. (2008). Furthermore, this results was supported by Solomon, et al. (2003), who also found that few firms in Taiwan had established audit and remuneration committees

On the other hand, all participants claimed that their firm did have no nomination committee. Interestingly, the responsibility of the nomination committee became the duties of the general assembly. The following statement clarifies this issue:

"In our firm, we do not have nomination committee, but the general assembly undertakes its responsibilities ".

Furthermore, other participants mentioned that BODs as responsible for all the nomination committee duties, for instance, nominating managers for executive positions in addition to informing them about the code of CG to comply. Further, he argued:

"The BODs is responsible for nominating managers for all positions".

Interestingly, a participant claimed that his firm has a nomination committee. He claimed that nomination committee was the BODs, which was in charge for nominating managers in many posts. It seemed as if this participant did not recognize the difference between the BODs and nomination committee. It is worth to note that all participants claimed that they have no a nomination committee and emphasized that all responsibilities were carried out by the BODs.

This finding conflicted with the recommendations of many corporate governance codes in both developing and developed countries (The Combined Codes 2006; OECD 2004; Cadbury 1992). Furthermore, this result was consistent with the results provided by Solomon, Lin et al. (2003). They showed that few firms in Taiwan had established audit and remuneration committees. The results also confirm the results of Abd-Rahman (2008), who found that the BODs of almost half of the Egyptian firms did not establish remuneration committees.

Also, some participants agreed that an investor relation department was important to solve any problems meet by the investors. It provided stockholders with pertinent information, In addition to coordinate between the firm and the market. A general manager stated:

"Investor relation department *are providing stockholders with some information and other pertinent statistics in addition to dealing with ASE. ".*

In line with fairness and transparency, a firm has the responsibility to support effective relations with stockholders and other stakeholders (Milan, 2007)

6.4.1.4 Disclosure

Participants were solicited to give their views on how effectively their firm employed the disclosure requirements of the Jordanian Corporate Governance Code concerning of social policies, BODs committee and related party transactions. All participants admitted that disclosure and transparency is vital and significant for firms to stay in the market.

Concerning to the annual report of the BODs, the participants agreed that their firms disclosed this with financial. In contrast, one participant claimed that his firm did not disclose an annual report of the BODs. He claimed that only financial statements were disclosed and as he pointed out:

"No more than the financial statements are disclosed, but the BODs annual report has never been published. Our firm provide the investors with the

basic financial statements, namely balance sheets and income statements".

Other participants stated that their firms disclosed only the names of the committee members. This may still be because of the fact that CG is in early stage in Jordan. A participant stated:

"Only the names of the committee members are disclosed in the annual report ".

On the other hand, the other participants s mentioned that their firm had no a BODs committees. Thus, they did not give any statements concerning this question.

Another emerging issue of importance in corporate governance is corporate social responsibility (Solomon and Solomon, 2004). Corporate social responsibility has become very important for many countries, and the new trend of governments is to release accountability indexes concerning social and environmental accountability. Firms must have a helpful role in spreading social culture (Solomon and Solomon, 2004). For these reasons, all participants in the current study were solicited to give their personal opinion on firms' success in discharging accountability to society and behaving socially responsible in Jordan. Some participants indicated that the current effort of Jordanian firms is weak, because financial lists in most public firms are free from any indication that they take social responsibility into consideration. But in their opinion, the application of effective CG will encourage firms to adopt social responsibility in the future. A participant made the following statement:

"Actually, there are no such a systems created by the firm to be accountable to the society. So, the problem is in the system, and that is why it is very critical to apply good CG in Jordanian firms in order to overcome such a problem."

Some interviewees thought all firms should be as socially responsible firms, through investment in human resources, providing job opportunities for the society, and designing training courses for people. These entire variables would help firms to be accountable to the society. A participant remark that:

"The firm should work to serve the society and utilise all human resources in the society to motivate potential employees to work in the private sector, in that way promoting the importance of this sort of firm in the Jordanian environment."

This result is consistent with recommendations and findings obtained by Solomon arid Solomon (2004). Andrew and Samantha (2001) and Sparkes (2002) indicated that institutional investors have huge socially responsible investment as part of their portfolio investment strategies. On the other hand some interviewees thought discharging accountability should be a partnership effort between government, public listed firms and the society. One stated:

"Discharging accountability should be adopted by the firm, the government, and the society. This is the best policy to discharge accountability and behave as a socially responsible firm.

During the interview it was found that interviewees mentioned the importance of a new policy to be introduced by the government in concentrating on the society. They suggested designing many workshops and conferences to direct the firms to increase the awareness of the importance of corporate social responsibility and applying the principles of the good CG system in Jordan. This view was provided by a manger in a firm who remarked:

"Currently, our firm understand its duties to the society and its conduct as a socially responsible firm. Undoubtedly this is because of the current interest of the Government in applying good CG system and thereby setting effective

criteria for this system. "

Also, some participants considered that at present corporate social responsibility is not very important dilemma in Jordan. Nevertheless, they expected the status quo to change with the recent implementation of the CG system in Jordanian firms, since they feel that this system motivates the firm's interest in the community. Confirming this view, participants made the following statement:

"Not yet, but I do wish it would happen as soon as possible with the implementation of CG in all Jordanian firms."

"Really, in Jordan if there were social responsibilities, the society wouldn't know about it".

Generally, the government of Jordan has paid quite efforts in recent years to society and CSR. Furthermore, It is also paying attention on the effect of firms' operations on the environment.

Concerning related part transaction, participants confirmed that their firm had no related party transactions. As a participant claimed:

"In fact, there are no such transactions, and even if there were, they cannot be approved because of the lack of disclosure and transparency".

This finding could be justified because of the weakness of transparency and disclosure and in Jordan.

6.4.2 Factors inhibiting the application of good CG in Jordan

As regards the main factor inhibiting the practice of corporate governance in Jordan, different barriers were suggested by participants, such as: weak management team; poor legal environment; government intervention; ownership structure of firms; high financial cost of applying the good CG system and deficiency of training programs for members of BODs about good CG system. As a result of such investigation, it is found that the majority of interviewees believe the lack of systems and procedures governing firm activities are the first factor inhibiting the practice of effective formal governance in Jordanian companies. These opinions are supported by a manger said:

"I agree, because current systems and procedures in Jordan are free from the obligation for Jordanian firms to apply good CG system."

Some managers suggested another factors. They stated:

"Generally, I agree with this finding, but large shareholders might affect the firm's decisions –making process."

"Majority of firms' management leadership have no high level of knowledge about its industry.".

In addition, a manager stated:

"Poor management leadership is a key barrier in understanding and applying this system ".

Further, one manger relate this to the lack of knowledge about its benefits, and the absence of education and training programmes.

This result confirms the recommendations made by Dahawy (2008); extra attention is required on education and training among all stakeholders to develop the application of good CG in Egypt. This response supports findings and recommendations made by Malin (2007) and Solomon (2007), who argues that it is very significant for stockholders to decide for themselves BODs, composed of highly educated members interested to take decisions that will increase the firm performance and thereby maximise shareholders value.

Furthermore, this consistent with findings provided by Fawzy (2003) she declared that the Egyptian legal system is still need extra efforts to increase the effectiveness of applying good CG in the country. Wong (2009) also examined the various CG reforms in Philippines after the employment of the code of CG, and he noted that there was a poor law supporting CG in the country.

Thus, managers recommend it is one of the main barriers of CG as a large number of BODs staff and directors do not comprehend the system. They believe that in Jordan the issue of CG training is ignored. Directors should be aware that if they become less informed about training benefits, their firms will continue to stay behind in this regard. Therefore, it is important for integrating CG lessons in their training sessions. Both the stock exchange and the Jordanian government should assist each other to solve these barriers. This was supported by a director, who mentioned: *"We are desperate for training courses and seminars to mitigate the gap between our firms and developed countries".*

In addition, a manager stated:

"I have attended many training programmes offered by the government, but none of them was about the CG system".

This is in line with the recommendations made by the UAB (2007), which assert the need to implement training programs on CG for appropriate staff in the Arab countries. This finding is also consistent with the results of Dahawy (2008) who stated that the need to increase the focus on training programs to employees and other stakeholders to develop the application of CG in Egypt.

In contrast, others attributed this to other problems, as lack of transparency. Further, they highlighted that there are quit laws in Jordan, but the problem is with it is implementation. A manager stated:

"..., I don’t count the Jordanian legal climate to be real barriers as there are such rules that many other Arab countries don't have... in general, the actual problem is with it is implementation".

This finding is in line with the recommendations presented by Chong and Lopez-de-Silanes (2007). Their results highlighted that the Latin American under analysis suffered from a poor legal protection and poor capital markets as a result of poor enforcement of their regulations.

Government intervention also was mentioned as one of the barriers of the implementation of good CG. Participants assured that the barriers that prevent good CG in Jordan is simply because the government of Jordan is still interfering in state firms. Unfortunately, this is contrary to the government of Jordan claims in front of the international community as they totally support the implantation of good CG in Jordan. They continued to argue that even in those firms which were already privatised, the government intervention is a barrier to firm activity. Simply, the government still partly owns stocks in these firms and dealt them as state firms. In support of this, a general manger said:

"The government still exerts a great deal of control over many firms in Jordan despite their privatisation, which negatively affects their activities”.

The ownership structure of some firms in Jordan was pointed out by some participants, who declared that this was dominated by families and thus represent a barrier to good CG. Really, the effect of some parties over some firms has created many problems. This was mentioned by a general manager, who said:

“Family ownership affects the firm to operate in their best interest and thus ignoring the shareholders and other stakeholders’ interest".

The other barriers to the implementation of good CG in Jordan mentioned by some participants were the financial cost. This is because god CG requires the creation of many committees connected with BODs as well as requires some experts from outside the firms and sometime outside the country. Hence, the other participants claimed that good CG is a costly system, but its benefits exceed its costs. Surly, this relates to a lack of awareness of both the government and directors of the firm. A CEO of a firm stated that:

"In spite of the cost, such a good CG system achieves transparency, which is more than valuable”.

Moreover, a general manager stated:

"There is some cost, but compared to the benefits it will be nothing”.

Also, he remarked:

“It won't be significant enough to be described a barrier.”

This result was in accordance with the results of Business Roundtable (2006). The results showed the high costs of implementing the Sarbanes-Oxley in the USA. This finding also confirmed the results of Duca et al. (2007), which revealed that most firms in Romania consider the adoption of a good CG system as difficult because of huge financial cost.

The next part of the chapter present semi structured interviews with Jordanian regulators.

6.5 Interviews with Jordanian Regulators

This part seeks to examine the views of the Jordanian regulators in relation to current practice of CG and identifying and decreasing obstacles, specifically with regard to the introduction of the CG Code for shareholding companies listed on the Amman Stock Exchange.

6.5.1 The current practice of CG System in Jordanian Firms

This section presents and discusses many issues regarding the current practice of good corporate governance practices in Jordan, general ideas about the introduction of the CG Code for shareholding companies listed on the Amman Stock Exchange, the advantage of applying this code and the status quo of CG in Jordan.

6.5.1.1 The Jordanian CG Code

In general, the participants answered positively to the idea of implementing the CG Code for shareholding companies listed on the Amman Stock Exchange. Although it is clear that the findings of the interview survey supported applying good CG system in Jordanian firms since all of them were in favour of the CG Code for shareholding companies listed on the Amman Stock Exchange. A participant stated that:

"Corporate governance code is necessary for any stock exchange. But, the stock exchange may be too rushed in implementing such a code."

Other participants expressed their views as follow:

"The CG code is a good step toward maximising the firm performance".

"The CG code is outstanding if correctly implemented.".

Moreover, the key reason behind the application of the CG Code for shareholding companies listed on the Amman Stock Exchange was mentioned by a participant:

"... We had to explain some important issues related to the firms to be listed in the Amman stock exchange, and definitely CG was one of them. Corporate governance was completely unknown to employees of these firms, so this code makes them aware of good CG system".

Also, the other participants remarked that the code was copied. They stated:

"It is important to have such a code in Jordan, but as I know most of its items are copied from other codes."

"The CG code is completely new in our country and preparing such a code is a big scheme, and I am sure all the firms will shortly identify the benefits of implementing it".

Further advantages are presented and discussed in the following subsection.

6.5.1.2 The Advantages of Applying the Corporate Governance Code for shareholding companies listed on the Amman Stock Exchange

The most common benefits were presented by the interviewees are organising relationships between the BODS, investors and shareholders and shareholders' rights protection. As one of the participants stated:

"There is at least one advantages of applying the CG Code for shareholding companies listed on the Amman Stock Exchange*; t which is protection of shareholders' rights in the Jordanian firms".*

On the same idea, some interviewees remarked:

"The main benefits are organising the relationships between the shareholders and BODs".

These results are in accordance with those mentioned by La Porta et al. (1999). They stated that protecting minority shareholders is vital to good CG.

They also provided that investors are highly motivated when the firm develops effective CG to protect interest of minority shareholders' wealth(La Porta, De-Silanes et al., 1999). Participants expressed their opinions as regards the benefits of applying the Jordanian Corporate Governance Code:

"In my opinion, applying good CG will lead to market growth as well as transparency. Furthermore; it may lead to foreign investment".

"There will be many benefits, as investor confidence and firm protection against collapse, which utilise the country as a whole".

These results were also in accordance with those provided by Gregory and Simms (1999) and La Porta et al. (1999). Moreover, the OECD principles support this finding:

"Good CG helps to assure that firms use their capital efficiently. It helps to maintain the confidence of investors both foreign and domestic. "(OECD, 2004)

It should be noted that participants emphasized the need for good CG principles especially in Jordan as a result of their importance in preventing corruption in their firms. As a financial manager said:

“The concept of CG is still in early stage in Jordan, even though, I am more than sure that the interest in the practice of good CG will increase by time in Jordan precisely because it has suffered a lot from corruption. Therfore, it is in need, more than ever, of CG in order to keep firms running and to maximize shareholders value”.

6.5.1.3 The Status Quo of CG in Jordan

The interviewees in the interview survey were solicited to express their opinion about the status quo of CG in Jordan. The participants answered positively to the issue of the current implementation of the CG Code for shareholding companies listed on the Amman Stock Exchange in Jordan but the existing situation needs more development. It is clear that the findings obtained from regulators tend to support the findings extracted from the mangers of Jordanian listed firms regarding the application of the CG Code for shareholding companies listed on the Amman Stock Exchange by these firms. On the other hand, some Jordanian regulators believed that the CG Code for shareholding companies listed on the Amman Stock Exchange code was not strongly applicable. As regulator put it:

"*Frankly, I don't believe that firms listed on the Jordanian stock exchange practice CG system since directors of the firms do not understand such code ".*

However, some regulators justify the poor application of the CG Code for shareholding companies listed on the Amman Stock Exchange to the lack of directors' knowledge of it and the panic that it would minimise their own rights. A regulator explained:

"Applying CG principles to some extent is not easy since Jordanian firms aren't ready well yet.".

Another regulator believed that the reason for not applying effectively the CG Code for shareholding companies listed on the Amman Stock Exchange is the absence of investment awareness in Jordanian firms. He commented:

"Actually, most of corporate governance principles exist in theory, since it's included in the Jordanian companies law. Even though, most Jordanian firms did not apply these principles, and this, in my view, is because of the absence of investment awareness in Jordanian listed firms."

It is worth to mention the results made by Dahawy, (2008); Wong, (2009); and

McGee, (2008), who studied CG applications in selected Asian markets and found that the practices of CG principles was very weak. In addition, Greenspan (1999); Harvey and Andrew (1999) examined the East Asian CG, remarked that weak CG is one of the main causes of the East Asian financial collapse of 1997. Furthermore, it is very important note made by Peng and Heath (1996) who claimed that the week CG mechanisms generate a weak governance climate, which in turn will definitely create Agency problems.

In short, Jordanian firm law included the principles of CG. But, the problem is set with the applying this system, since it vary from one firm to another according to the internal policy of each firm The interviewees pointed that this dilemma cannot be sorted unless the government of Jordan appoint an external body to manage the application of good CG principles. This outcome is consistent with the results made by Hussain and Mallin (2003, p.249) in their study on Bahrain:

"Whilst Bahrain does not have a CG code yet, the firm law include some interesting point that will contribute to the CG framework in Bahrain. In fact, there are some optimistic characteristics and improvements in CG in Bahrain".

Clearly, in theory, some Jordanian firms comprehend the Jordanian CG Code, practically, it is absent absolutely. Some regulators stated that the problem with the implementation of the code is the lack of knowledge of the directors about its benefits; on the other hand, some assumed that this was because the code was copies from other developed countries. At the same time, others believe that the Jordanian firms worries that CG application would minimise their own rights. This outcome is in accordance with Duca et al. (2007), who stated that in Romania there was not actual interest in CG concept. Thus, in order to have real interest in the concept of corporate governance, the government should designs training programmes and spread the culture of governance between shareholders and other stakeholders (Dahawy (2008).

6.5.2 Factors inhibiting the application of good CG in Jordan

This section aimed to identify which barriers most affected the implementation of the corporate governance practices in Jordan as noted in the interviews with mangers of listed firms and the questionnaire survey results. The participants were given a list of barriers facing the application of the CG Code for shareholding companies listed on the Amman Stock Exchange. Eight barriers recognised by the participants, the regulators ranked three of them as critical barriers.

Regulators mentioned ‘Lack of knowledge of board of directors about CG principles’ as the most significant barrier. This result confirm and extend the recommendations made by Mallin, (2007) and Solomon (2007), who stated that it is important for shareholders to decide for themselves BODs, composed of qualified members, who are interested to make decisions that will benefit the firm as a whole and increase shareholder value. Moreover, the impacts of the ‘weakness of the legal environment’ for firms in Jordan followed by the ‘financial cost of applying corporate governance system’ were the two barriers noted by regulators to be among the barriers for implementation of t the CG Code for shareholding companies listed on the Amman Stock Exchange. This outcome is confirmed by Wong (2009); Klapper and Love (2004) who showed that CG system are important in countries with poor legal regulations.

Concerning vehicles of overcoming these barriers, participants agreed that designing training programmes and seminars, in addition to introducing CG education plan. Furthermore, Jordanian firms needed more support from the regulator to implement CG. A regulator remarked:

"These barriers can be eliminated by organising seminars, implement campaigns via media programmes ".

It is worth to note that the concept of good CG somehow is in early stages in Jordan. Definitely, there is a lack of information and knowledge about good CG, however implementing effective corporate governance without doubt will offer huge benefits to managers, shareholders and other stakeholders. In addition, Jordanian firms should bear in mind to cover the cost of training board of directors' members as well as management team and other firms' staff.

Respondents were solicited to give their opinion concerning the barriers preventing practicing good CG in Jordanian firms and how to overcome these barriers. Respondents mentioned two important barriers according to them, namely, 'ownership structure' and 'weakness of the legal system''. Also, they recognised the absence of regulations for CG as it is a new concept in Jordan As a regulator said:

"Two barriers are hindering practising good corporate governance in Jordan, namely, ownership structure and the absence of good corporate governance rules. Therefore, the CG Code for shareholding companies listed on the Amman Stock Exchange is needed*"*

Tribal loyalties of the board members and major shareholders finally were mentioned by a regulator as a barriers, unfortunately, they did not provide and solutions to overcome problem. Furthermore, the respondents believed that raising shareholders and other stakeholders' awareness may promote the application of good CG in Jordan. He remarked:

"Raising shareholders and other stakeholders' awareness, *this is counted as one of the barriers which hindering application of good corporate governance".* Also, he added:*" The government in Jordan should educate*

stakeholders about the benefits of the application of good CG".

This point of view is line with results obtained from Duca et al. (2007), who claimed that in spite of the government efforts, there was no real interest in CG issues. At the same time, respondents confirmed that there were no more other barriers from their experience that were significant.

6.5.3 Future Development of CG in Jordan

Many issues relating to the future development of CG in Jordan were discussed in this section, namely, raising awareness between different bodies about the concept of CG and recognize the duties for both developing CG practices and supervising compliance with the Jordanian Corporate Governance Code. Participants confirmed public awareness can be done with cooperation between the private and public sectors; through spread awareness among all firms. In addition, universities should work with the government to organise conferences, as well as publish brochures and leaflets. In fact there is a lot of ideas to be done to increase the awareness of the impotence principles of CG. A regulator said:

"All government arms should be cooperated to increase public awareness of CG by organising conferences and publish newsletters. Universities should be considered because it is the main source of knowledge especially in developing economies including Jordan".

Spreading awareness should be one of the duties and responsibilities of firm managers to organise training for BODs and the employees concerning the implementation of good CG in Jordan, and to impose penalties for violation any rules of this system. Further, the awareness could be promoted by giving more power to the Jordan Securities Commission, as it is an independent authority to introduce the concept of good CG in Jordan and to ask all listed firms to apply it. Additionally, the government should compel all firms listed on the ASE to apply the CG Code for shareholding companies listed on the Amman Stock Exchange. Furthermore, the Jordan securities commission can bear the responsibility of developing and applying the concept of CG system in Jordan. This view was supported by a regulator who stated:

“The body that can be best to develop the concept of CG is Jordanian Securities Exchange Commission. Therefore, they should play a huge role in developing corporate governance system in Jordan”.

The reason behind this response is that the securities exchange commission is the main source of regulation for all listed firms in Amman Stock Exchange.

Finally, the interviewees were solicited to justify who should be responsible for ensuring compliance with the corporate governance Code for shareholding companies listed on the Amman Stock Exchange. Interviewees believed that this is a very tough job for one group to supervise compliance with this code and so recommended cooperation between all of them namely, private and public sector, definitely without excluding the stock exchange. Furthermore, professional societies and Universities should all of them work together to compel all Jordanian listed firms to apply good corporate governance system. On the other hand if it is possible ask the securities exchange commission to impose fines for noncompliance. A regulator puts it in the following terms:

"I have previously mentioned that each sector must apply the principles of good corporate governance in a right way otherwise impose fine for noncompliance".

At the same time, some interviewees had the same opinion that the Jordan securities commission should supervising compliance with the corporate governance Code for shareholding companies listed on the Amman Stock Exchange because they consider it is more influential than any entity. A regulator declared:

"Yes, of course it is the responsibility of the securities exchange commission *in Jordan as it is more influential than any entity. Actually, it is quite easy for them to monitor the compliance of the firms with the code".*

Also a regulator argued:

"As I know, the securities exchange commission *in Jordan* plays a significant role in monitoring compliance with the code ".

In short, all interviewees considered that currently good CG practice in Jordanian firms is weak and is still in the initial stages. However they believe that it could be improved through the establishment of effective system of CG, Asking all Jordanian listed firms in the Amman Stock Exchange to apply it. Furthermore, it is clear that the Jordan Securities Commission should compel all Jordanian firms to practice an effective good CG and overseeing its practices. This will help firms to attract more external and local investors (Black et al., 2006). The SEC should bear the responsibility of implementing this system effectively in all Jordanian firms to support it in the global market. One regulator stated:

"The CG system is quite limited, as the existing CG system does not compel all Jordanian listed firms on ASE to practice good CG principles; thus, there is differences in applications between firms".

This outcome supports the results and suggestions made by Saidi (2004), who examined the CG system in Lebanon. One of the main suggestions was the need for an independent entity to supervise the application of CG in the country.

6.6 Main Study Findings

The main findings that can be drawn from analysis of the semi-structured interviews are: most Jordanian firms were applying most CG system; CG is a useful mechanism for protecting shareholders' and stakeholders' rights; 'possessing global business contacts and experience' play an important role in determining the appointment of NED's in Jordanian companies; financial and non financial information in Jordanian firms need more disclosure and transparency; 'lack of knowledge of BODs about CG system' as the most significant obstacle; the government should launch training courses for members of the corporate management to overcome the barriers of applying good CG; The Jordan security commission is a very Important commission, and should motivate and force all Jordanian firms to practise an effective good corporate governance system.

6.7 Answering the Research Questions

Concerning the current practice of CG system within Jordanian firms (RQ3), participants confirmed that the existing application of CG system is weak and needs more improvement. Therefore, the problem lies in applying this system, it differs from one firm to another according to each firm's internal policy, and this, is due to the absence of an external party to supervise its implementation

In regards to the main barriers inhibiting the practice of corporate governance in Jordan (RQ2), participants agreed that 'lack of knowledge of BOD's and management about CG' and 'the lack of systems and procedures that govern firm activities' are the primary factors inhibiting the practice of good CG in Jordan, because there is no system that compels firms to implement the good CG system, and there are no procedures to monitor its practice.

6.8 Summary

The main objective of this part of the study was to provide a broader overview of the status quo of CG in Jordan provided and give more insight into barriers facing the implementation of the code to extend the findings of the quantitative study. Thus, the semi-structured interview was adopted to gather data from interviewees from regulators and Jordanian firms. Interviews included both open-ended and closed-ended questions and included questions about the current application of corporate governance in Jordanian firms.

Concerning to voting rights, the results indicated that participants knew of the advantages of voting rights and firms allowed their shareholders to use the method of voting. However, cumulative voting was not employed in spite of this safeguarding the rights of minority shareholders by allowing them to work as a group to elect a candidate of their choice, who, as a member of the board of directors, would represent them. Shareholders of all the firms obtained relevant and timely information regarding financial and non-financial matters. They also had the right to share profits as well as to attend and participate at the AGM.

Concerning board members, most of the participants agreed that board members have highly qualified and have the right mix of experience, skills, and backgrounds. The results also showed that most of firms have different people in the two positions of the Chairman and the CEO. As regards the tasks and responsibilities assigned to the board of directors, the results indicated that the majority of firms reported that their board played an important role in setting objectives and strategy. Furthermore, the general written rules stipulate the role and responsibilities of the board of directors. However, the results revealed that all the firms do not have their own corporate governance rules and written policies clarifying the relationship with stakeholders. In terms of top management performance evaluation, the results demonstrated that this is done by board of directors, which effectively appraises the executive management using multiple financial and non-financial indicators. The results indicated that most firms have a good internal control system and there are bodies inside and outside that ensure the effectiveness of such a system.

The participants agreed that it was important to have independent internal auditors, who were highly educated in both accounting and auditing. However, with regard to the conflict of interest with the board of directors, the results indicated that the majority of participants stated clearly that their firms have no clear written regulations for the directors and staff regarding this issue. In addition, the majority of interviewees indicated that much of the data and information in Jordanian firms needed more disclosure and transparency. Also, all interviewees indicated that the audit committee is very important in the firm, and is the independent authority that supervises the work of the firm's administration, as this committee ensures trust and peace of mind to shareholders and the board of directors, providing that it is offered complete independence of the board of directors and the firm's executive directors

Finally, a number of obstacles affecting corporate governance were suggested by the participants. These were weakness of the organisation management, weakness of the legal environment; absence of training programs for members of board of directors about the governance system and the financial cost of applying the governance system

On the other hand, the overall impression gained from the regulators that while substantial progress had been made in those firms attempting to implement the Jordanian corporate governance code, it was not reasonable to expect complete compliance in firms, and within a corporate culture, where the right of stakeholders were new concepts and no history of effective corporate governance existed. In order to provide a more complete picture of Jordan attempts to improve corporate governance code, the findings provided valuable insight into obstacles facing the implementation of the code,

Thus, this study investigated the views of Jordanian managers and regulators. While agreeing with senior managers about the urgent need for an effective corporate governance code in Jordan, regulators considered the level of implementation of the code still lower than expected. Regulators regarded the main advantages of corporate governance as being protection of shareholder rights; oversight of management performance; and regulation of the relationship between boards of directors, shareholders and auditing committees. Regulators agreed with the managers that the code faced many obstacles to its successful implementation, of which the most important were perceived to be lack of knowledge about corporate governance among Jordanian firms followed by the weakness of the legal environment for firms in Jordan, the weakness of the legal environment, lack of training among directors about corporate governance and weak investment awareness among investors were the obstacles noted by participants.

Suggested solutions to overcoming these obstacles were: organising workshops and training, as well as developing corporate governance education programmes. In addition, firms were felt to need more freedom, empowerment and support from the government in this context. Overall, education was perceived to be the key to overcoming obstacles to the code and the lack of experience within the country of operating organizations within a free market system. This chapter completes the presentation and analysis of the findings from the data collection of this study, and in collecting the principal observations of the Jordanian managers and regulators fulfils the purposes of objective two and three. The next chapter provides a comprehensive discussion on the analysis of the results and findings of the quantitative and qualitative data that presented in chapter five questionnaire survey results and chapter six interview results.

CHAPTER SEVEN

7 DISCUSSION

7.1 Introduction

This chapter provides a comprehensive discussion of the analysis of the results and findings of the quantitative and qualitative data presented in Chapter Five, the questionnaire survey results, and Chapter Six, the interview results with examination of relevant literature. The current study is intended to fill the gap in the literature by investigating and providing a comprehensive review of the status quo of corporate governance in Arab countries, including Jordan. Such a comprehensive view would serve as a basis to identify weaknesses and problems of corporate governance in MENA countries. Moreover, the current study provides evidence by confirming and extending the usefulness of applying an effective corporate governance system not only in developed countries but also in developing countries, including Jordan. The results of this research will help the main regulatory bodies to overcome problems and improve the weaknesses in their current practices to ensure the success of their corporate governance improvement initiatives. It also provides support for related parties to cooperate in improving the current corporate governance code in Jordan to meet international standards. Thus, the findings of this study will be useful for developing and improving the current corporate governance system in Jordanian firms. The objectives of this study are as follows:

- To identify the determinants of critical factors for implementing best practice of CG in Jordan.
- To explore the current practice of the CG system in Jordan.
- To identify the factors that inhibit best practice of CG in Jordan.
- To empirically investigate the effects of CG on firm performance (financial measures) in Jordan.
- To explore the respondents' perceptions regarding the effect of CG on firm performance in Jordan.
- To investigate the relationship between corporate governance practices and firm characteristics (firm size, firm age and sector) in Jordan.

7.2 Major Study Findings

The methods used in this study to explore the current practice of CG in Jordanian firms were questionnaire and interview surveys as explained in Chapter Five. A questionnaire was used to collect data from directors in 113 Jordanians firms. All interviews were conducted with managers and regulators in Jordanians firms. The next subtopic will discuss the findings extracted by both methods.

7.2.1 The Current Practice of the CG System in Jordan

The overall impression from the interview survey, discussed in Chapter Six, indicated that most Jordanian firms are applying most CG systems, because CG is considered a useful mechanism for protecting shareholders’ and stakeholders’ rights and determining the responsibilities of boards of directors in Jordanians firms.

The general findings were that most large Jordanian firms are applying the CG system. These results are in line with findings reported by Fiegener et al. (2000), Huse (2000), Johannisson and Huse (2000) and Zahra et al. (2000). They found that governance recommendations are mostly derived for large firms and their reasoning may be of limited value for small sized and newly founded businesses.

In relation to shareholders' rights, in general, the interview findings indicated that most interviewees agreed that shareholders' rights are protected. Among items receiving the highest interest were the right of shareholders to be informed of the rules that govern general meetings and the right of shareholders to be given the opportunity to participate in and vote at general meetings. These findings support recommendations provided by the OECD (2004) which stated that a CG framework should protect shareholders' rights as well as ensure that all shareholders are undertaking and practising their rights. As indicated by interviewees, shareholders' rights exist in principle under Jordanian Firm Law but in practice they differ from one firm to another. Thus, more attention must be paid by the Jordan Securities Commission to obligating all Jordanian firms to apply this principle or to supervise their application of it. However, as made clear by the interviews, shareholders' rights are the most important principle to take into account when applying an effective CG system. In Jordan, these rights, especially those of small investors, are often ignored or not considered. These results support the findings and recommendations made by Mallin (2001) La Porta et al. (1998) and Solomon and Solomon (1999) that effective application of a CG system will protect shareholders' rights.

The finding that shareholders' rights, especially those of small investors, are often ignored or not considered was expected by the researcher. Most of the above literature and studies have been conducted in developing countries and, as mentioned, Jordan is a developing country, which means similar practices and procedures are found as occur in other developing countries. However, Shleifer and Vishny (1997) argue that the legal protection of investors is an essential element of an effective CG system. If small investors are to be attracted to firms, they need some legal protection. Thus, weak legal protection of minority shareholders' rights will create conflicts of interest between mangers and shareholders, which in turn increase the tendency for, and size of, agency problems.

It may be concluded from the research findings that shareholders' rights is the most important principle to take into account when applying an effective CG system, and should be observed by both large and small firms. In addition, The CG Code for Shareholding Firms Listed on the Amman Stock Exchange should obligate all Jordanian firms to apply it and carry out inspection of the application of this code in each firm.

Interview findings show that the roles and responsibilities of the board of directors should be defined under Jordanian Firm Law and the CG Code for Shareholding Firms Listed on the Amman Stock Exchange. However, their application differs from one firm to another according to each firm's internal policy, although the Jordanian firm law system specifies the authorities and responsibilities of boards of directors via the basic systems in Jordanian firms, and the CG Code for Shareholding Firms Listed on the Amman Stock Exchange addresses the authorities and responsibilities of the boards of directors via its recommendations. Furthermore, boards of directors have to be aware that their goal is to protect the interests of shareholders and other stakeholders. Therefore, the tasks and responsibilities of the board should be clearly defined to ensure that it monitors all the work of the firm's management, thus facilitating questioning of the board by shareholders which may reduce the conflict between them and, in turn, agency costs.

The interview results also indicated that CG policy in Jordan will lead to an increase in the number of NEDs and most firms split the positions of the Chairman and the CEO. Furthermore, they agreed that boards of directors play an important role in setting the firm's objectives and strategies. Also, the result showed that not all firms have their own CG rules and written policies illustrating the relationship with different stakeholders, and most of the firms recognised the fact that top management performance was evaluated in different ways. Reviewing the internal policies was one of the main responsibilities of the board. The results stated clearly that Jordanian firms have no clear written regulations concerning conflicts of interest and confirmed that firms in Jordan have no written professional code of conduct which directors and staff employees could follow.

Overall, it may be concluded from the study's findings that the board of directors' responsibilities are clearly set in Jordanian firm law, and they should maximise shareholders' and stakeholders' value, which coincides with the main goal of shareholders and consequently leads to a reduced agency problem. These results support the findings and recommendations made by the OECD (2004), Prentice (1993), the Cadbury Report (1992) and Monks and Minow (2001). Melis (1999) provided empirical evidence that the main goal of firms is to maximise the value for shareholders. However, the Jordanian firm law system gives stakeholders the opportunity to obtain effective redress for violation of their rights, and this undoubtedly increases the trust of stakeholders. Therefore, effective implementation of the CG system will overcome this problem as well as strengthen links between the firm and stakeholders which means reducing the conflict of interest and agency problem between them which in turn will enhance the performance of the firm and at the same time maximise shareholders' value. The findings were, in general, in line with recommendations made by the Cadbury Report (1992) and Mitchell and Sikka (1996). The OECD (2004) stated that a CG system should protect the rights of other stakeholders, such as banks, bondholders and workers. CG should also encourage active cooperation between the corporation and stakeholders, since this will enhance the performance of both CG and the market.

Findings from the interviews revealed that the disclosure of information on financial and operating results required greater transparency in Jordanian firms due to the lack of systems and lists that define the importance of spreading such data and information. More disclosure and transparency can be achieved by implementing an effective CG system. This finding, in general, is in line with recommendations made by the OECD (2004) and Min-Young Lee (2001).

The results also indicate that, in general, respondents agreed to increase the number of NEDs in Jordanian firms. As regards factors influencing the appointment of NEDs, the interview results indicated that possessing global business contacts and experience as first and second factors respectively, play an important role in determining the appointment of NED's in Jordanian firms. The system governing Jordanian firms declares there should be at least three NEDs in those firms operating in Jordan. This result was in line with the results obtained by Hussain and Mallin (2003). Further, Solomon et al. (2003) supported the agency theory approach to CG, as they considered the presence of outside directors improved corporate accountability to shareholders and this clearly reduced or even eliminated the conflict between them, which in turn enhanced firm performance. Furthermore, Jordanian Firm Law and the Jordanian CG Code require Jordanian firms to appoint an audit committee from NEDs (not fewer than three) to be the key link between management and the external legal accountant. This decision is a good step in the legislative reforms in Jordan to meet the Cadbury Report's (1992) recommendations. Thus, participants believed that CG policy in Jordan will lead to an increase in the number of NEDs, especially in large firms. This result was in line with the results obtained by Bloch (1997) and Barry (1998).

It may be concluded that a NED is a very important instrument that should be considered carefully in the process of establishing the code of CG in Jordan. The Firm Law requires all firms to appoint at least three. The problems lie in the methods of choosing them, i.e. family members or close friends may be appointed with no knowledge of firm business, and may therefore lack independent judgement. This finding, in general, is in line with the recommendations and findings reported by Hermalin and Weisbach (1991), Pearce and Zahra (1992), Pettigrew and McNultty (1995), Mak (1996), Salmon (1993), and Solomon and Solomon (2004). Mangel and Singh (1993) claimed that NEDs have more opportunity for control, encouraged by their responsibilities as directors and by their equity position. Thus, NEDs are seen as raising boards' effectiveness. Johnson et al. (1993) stated that the board's composition has the power to influence its goal of monitoring managers and protecting the interests of shareholders. Cadbury (1992) identified two particularly important contributions of NEDs to firms' effective governance, namely, reviewing the performance of the board and executives and taking the lead where potential conflicts of interest arise. It is recommended by agency theory to appoint to the BOD a given number of NEDs to resolve conflicts of interest between shareholders and mangers.

In the interviewees' view, therefore, the Jordan Securities Commission should force all Jordanian firms to practice an effective CG system and monitor its implementation. This will encourage firms to have a strong monitoring and management system which will help attract local and external investors.

Interview results indicate that current CG systems in Jordanian firms tend to be weak, and need more development, because of the absence of investment awareness and the absence of the obligation of all Jordanian firms to apply this system or to supervise their application of it. But it could be developed via the CG code, obligating all Jordanian firms to apply it. This result is in line with the findings reported by Kim (1998), Melis (2000), Harvey and Roper (1999) and Greenspan (1999). Finally, Peng and Heath (1996) indicate that the lack of legality for formal governance mechanisms creates a weak governance environment, which may lead to agency problems. Thus, the current state of the CG system in Jordan needs more guidance and development, increased investment and awareness of the importance of applying an effective CG system in Jordanian firms.

Part of this study investigated whether Jordanian firms had sub-committees, such as audit and nomination committees, or not. It also aimed to determine the number of NEDs on each committee. The results indicate that all Jordanian firms have an audit committee. This finding can be explained due to Jordanian Firm Law requiring each Jordanian firm to establish an audit committee. Moreover, empirical findings gathered in this study show that most of the firms' audit committees comprised at least three NEDs. This result was in accordance with those obtained by Proned (1993), Collier (1993), Keasey and Wright (1993) and Peat Marwick (1987).

Regarding nomination committees, clearly, participants showed that not all Jordanian firms have such committees. This finding can be explained by Jordanian law requesting each Jordanian firm to establish an audit committee but not requiring it to establish nomination committees. This finding was in accordance with that of Solomon et al. (2003), who found that a small number of Taiwanese listed firms have created nomination committees.

All interviewees thought the audit committee was very important to the firm, recognising that Jordanian Firm Law and the Jordanian CG Code establish the presence of an audit committee in each firm, specifying its role and duties. They also considered that the audit committee possesses independent authority, and its role is to supervise the work of the firm's administration and internal audit administration. Through its complete independence from the board of directors and the firm's executive directors, shareholders and stakeholders can be confident that decisions made take into account their interests as well as those of the firm. This result means that the audit committee plays an important role in aligning the interests of both shareholders and managers, which will enhance the performance of the firm and thereby maximise shareholder wealth. This result was in line with the results obtained by Peat Marwick (1987), Marrian (1988), Collier (1993), Keasey and Wright (1993) and Proned (1993).

In short, the interview results indicated that the most common benefits of implementing CG in Jordan were the protection of shareholders' rights, appropriate management performance, organising relationships between the BOD, increasing disclosure and transparency of Jordanian firms and protecting firms from crisis. All this will reduce the agency problem and increase the value of the firm by enhancing the confidence of financial markets and attracting foreign investors. In fact many parties will derive great benefit from applying the CG system in Jordanian firms, as this system considers the interests of all sectors in society and all sides related to the firm. In addition, local and external investors, employees, banks and lenders, and local society, gain very important and direct benefits from applying the CG system in Jordanian firms. These results were in line with the questionnaire survey findings.

Participants agreed with all the aspects mentioned for achieving good CG in Jordan. The interview survey results aim to confirm, and give better understanding of, the results obtained from the questionnaire survey. Almost all interview participants (directors of financial departments) responded positively to the concept of introducing a CG system to Jordanian firms. They thought that applying effective CG would encourage firms to create strong relationships between firms and shareholders and other stakeholders as well as help to strengthen internal control and management systems. Thus, effective CG is a mechanism that may align the interests of managers and shareholders (Clarke, 2007). The problem arising from the conflict of interests between mangers and shareholders is the agency problem (Jensen and Meckling, 1976). This result was consistent with the findings provided by La Porta et al. (1997), and La Porta et al. (2000). They highlighted the importance of effective CG in emerging markets. Their results indicate that across countries, CG is an important factor in financial market development and firm value. The next section will discuss the critical factor of good CG in Jordan.

7.2.2 Critical Factors of the Best Practice of Corporate Governance in Jordan

As noted, there is no research published on critical factors for implementing best practice of CG in Jordan. Thus, this study focuses and disuses the following critical factors.

7.2.2.1 Constitution

Corporate constitution is based on the idea that the interests of shareholders should be the primary concern of the corporate board of directors (BOD). For instance, shareholders should be informed of the rules that govern general shareholder meetings and the right of shareholders to have the opportunity to place items on the agenda of general meetings (La Porta et al., 1998; Solomon and Solomon, 1999; OECD, 2004). Thus, the CG system should protect shareholders' rights. Also, related party transactions have always been a critical issue of interest in terms of the protection of shareholders' rights. Jordanian firms comply with those items at least, to avoid risk since the related-party transactions of controlling shareholders damage firm performance (Clarke 2007).

Regarding activities of the Chairman and the CEO, the aim of this question is to look at the separation of functions and activities of the CEO and the Chairman, split between various directors to attain good CG practice (Ibrahim et al., 2011) in Jordanian firms. In order to accomplish this goal, respondents from the firms involved in this research were asked if the activities of the CEO and Chairman were split between various directors in their firms. The findings revealed that Jordanian firms separated the positions of the CEO and the Chairman, and split these positions between various directors in their firms. Undoubtedly, this supports the importance of splitting the position of CEO and

Chairman to attain an effective CG system. These findings support the results of Faccio and Lasfer (1999), Dahya et al. (2000) and Young et al. (2001).

Ibrahim et al. (2011) confirmed that CG mechanisms such as the duality of family and non-family ownership have a strong significant influence on firm performance. Furthermore, Short and Keasey (1999) showed that in the past UK firms have been more likely to separate the activities of CEO and Chairman, but have been less likely to employ outside directors. Moreover, the Cadbury Report (1992) recommends that the activities of CEO and Chairman should not be held by the same person.

With regard to board committees, this question aimed to clarify whether board committees are composed of executive and non-executive directors. Generally, all Jordanian firms have an audit committee, this can be explained by Jordanian Firm Law requiring each Jordanian firm to establish an audit committee but not requiring it to establish nomination and remuneration committees (Solomon et al., 2003).

In terms of the selection of audit committee members, the Jordanian CG Code of Best Practice for listed firms (2007: para2.1) states that "*the committees shall be composed of not less than three non-executive members of the board of directors*".

All members of the committee must have knowledge and experience in finance and accounting, at least one of them must have worked previously in the accounting or finance fields, and that person must have an academic or professional certificate in accounting, finance or related fields. Empirical findings gathered in this study show that Jordanian sub committees included NEDs.

In addition, the analysis shows that there are statistically significant differences in that older firms and large-size firms are keener to adopt a balanced CG system compared to newly formed and small-size firms. The results correspond with the findings of Daily and Dalton (1992), Forbes and Milliken (1999), Fiegener et al. (2000), Huse (2000), Johannisson and Huse (2000), Zahra et al. (2000) and Dey, 2010. They found in their studies that large firms with long existence in the stock market have sound practice of CG compared to small or newly listed firms in the stock exchange.

In order to evaluate the current practices of CG in Jordanian firms, the principal component analysis used was a data reduction method to identify the pattern of correlations within a set of questions. Specifically, to investigate the correlation between respondents' scores in order to identify dominant factors, if any, to determine the constitution critical factors in Jordanian firms. There are four main critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. These factors are, "there is a formal and transparent procedure for the appointment of new directors to the board", "the roles of the Chair and the CEO are split between different directors", "directors are required to disclose any matters that may affect the firm" and "all board committees are composed of executive and non executive directors (NEDs)". These are the critical elements of the first factor, which is labelled "constitution", and indicates a sound CG system in Jordan.

In short, the critical factors of CG are applicable to Jordanian firms, as all participants scored highly, on average, on all the elements measuring good application of constitution, since all items recorded average mean scores of 4.7 as indicated in Chapter Five, Table 5-3. In the Jordanian context, there are four main critical factors which remain after the factor analysis is conducted (see

Chapter Five, Table 5-15) and which can be considered a model for implementing best practice of good CG in Jordanian firms. Constitution, as one of the critical factors of CG, suggests that an effective corporate constitution serves as a mechanism to mitigate or eliminate conflicts of interests between shareholders and managers. This is mainly attributable to the fact that the practising of constitution critical factors of CG by firms will increase the effectiveness and the efficiency of CG, which in turn reduces the agency problem and consequently enhances shareholder value.

7.2.2.2 Control

The questionnaire results indicated that older firms and large-size firms are willing to employ a balanced CG system compared to newly formed and small-size firms. A possible explanation for this difference may be that there are no provisions in the firm law that particularly require BODs to fulfil any of the key functions of the board. Moreover, there is no precise requirement for BODs to adopt the CG recommendations.

With regard to whether there are any significant differences concerning the control factors of best practice of good CG in Jordanian firms according to sector, the results suggest that there are no differences across the two sectors. Moreover, large firms are more likely to have internationalised operations, which require them to have clearly defined responsibilities of the BOD. Regarding the audit committee, it was obvious from the results that the audit committee plays an important role in Jordanian firms. The results align with the findings of Fiegener et al. (2000), Huse (2000), Johannisson and Huse (2000), Zahra et al. (2000) and Dey, 2010. They found in their studies that large firms with long existence in the stock market have sound practice of CG compared to small and newly listed firms in the stock exchange.

Principal component analysis was used to identify the control critical factors in Jordanian firms. There are seven critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. The second factor, labelled “control”, includes “the firm identifies in the annual report the key risk areas of the business and the strategies to manage them”, “the firm links rewards to long term performance”, “the firm reviews the effectiveness of the internal control system”, “the firm directors are not involved in determining their own remuneration”, “the firm discloses, in the annual report, whether the auditor provides non auditing services or not” and “the firm describes the work of the audit committee in the annual report”.

From the above discussion, the critical factors of CG are applicable in Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in control, since all items recorded average mean scores of 5.3, as presented in Chapter Five, Table 5-4. In the Jordanian context, after the factor analysis was conducted, all seven critical factors were considered (see Chapter Five, Table 5-16) as models for implementing best practice of good CG in Jordanian firms. Control, as one of the critical factors of CG, suggests that the control tool serves as a mechanism to align the interests of owners with those of managers, reducing the costs of agency conflicts of interest between them and consequently increasing firm performance, thereby leading to maximisation of shareholders’ value.

7.2.2.3 Competence

In Jordan, competence factors are effective factors for best CG practice. The firms review the proper technology and the systems used in the firms to achieve their goals. On the other hand, the Jordanian firms are less interested in training new directors to read and analyse financial statements. Furthermore, older Jordanian firms and large-size firms are more willing to adopt a balanced CG system compared to newly formed and small-size firms. The results align with the findings of Fiegener et al. (2000), Huse (2000), Johannisson and Huse (2000), Zahra et al. (2000) and Dey, 2010. They found in their studies that large firms with long existence in the stock market have sound practice of CG compared to small and newly listed firms in the stock exchange. Also, the results mentioned above support recommendations and findings made by the PWC (1997), Brickley et al. (1994) and Prentice (1993). Their studies suggest, in different ways, that CG is an effective mechanism for determining responsibilities of BODs.

Principal component analysis was used to identify the competence critical factors in Jordanian firms. There are four critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. The fifth factor, labelled “competence”, includes “trains new directors to read and analyse the financial statements”, “enlightens new directors about the long/short term objectives and mission of the firm”, “updates its directors about the trends and new global issues of CG”, “reviews the proper technology and the system used in the firm to achieve the firm’s goals” and “evaluates its process and transactions and discloses the result in the annual report”.

The results show that the critical factors of CG are applicable in Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in competence, since all items recorded average mean scores of 5 as presented in Chapter Five, Table 5-5. In the Jordanian context, after the factor analysis was conducted, all five critical factors were considered (see Chapter Five, Table 5-17) as a model for implementing best practices of good CG in Jordanian firms. Competence, as one of the critical factors of CG, suggests that it acts as a mechanism to align the interests of owners with those of managers, reducing the costs of agency conflicts of interest between them and consequently, increasing the firm's performance, thereby maximising shareholders' value.

7.2.2.4 Compliance

CG has become an important issue in theory and practice in recent years. To ensure a competitive position, to attract foreign and local investors, to ensure sustainability, and to combat corruption, firms from developing countries including Jordan need to take into consideration good governance practices. Thus, Jordanian firms, particularly larger ones, reported higher levels of agreement with compliance factors as an effective factor for best CG practice. Also, older Jordanian firms are able to employ a more balanced CG system compared to newly formed firms. The results align with the findings of Fiegener et al. (2000), Huse (2000), Johannisson and Huse (2000), Zahra et al. (2000) and Dey, 2010.

Principal component analysis was used to identify the compliance critical factors in Jordanian firms. There are four critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. The fifth factor, labelled “compliance”, includes “trains new directors to read and analyse the financial statements”, “enlightens new directors about the long/short term objectives and mission of the firm”, “updates its directors about the trends and new global issues of CG”, “reviews the proper technology and the system used in the firm to achieve the firm’s goals” and “evaluates its process and transactions and discloses the result in the annual report”.

It is clear that the critical factors of CG are applicable to Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in compliance, since all items recorded average mean scores of 5.2 as presented in Chapter Five, Table 5-6. In the Jordanian context there are six main critical factors which remained after the factor analysis was conducted (see Chapter Five, Table 5-18) and can be considered a model for implementing best practice of good CG in Jordanian firms. Thus, compliance as one of the critical factors of CG suggests that it serves as a mechanism to align the interests of shareholders with those of managers, reducing the costs of agency conflict between them and consequently, enhancing the firm’s performance and thereby its value.

7.2.2.5 Competitiveness

The results suggest that there are no differences across service and industry sectors. Moreover, testing for significant differences in terms of age and size the results also showed no statically significant differences. The results indicate that the Firm Law and the CG Code do not broadly address the rights of minority shareholders in depth. The Jordan Securities Commission (JSC) has to be aware of this important issue in order for suitable regulations to be enforced to protect them.

Principal component analysis was used to identify the competitiveness critical factors in Jordanian firms. There are five critical factors that can be considered a model for implementing best practice of good CG in Jordanian firm. The fifth factor labelled “competitiveness” includes “states the firm’s objectives and goals in the annual report”, “discloses the ownership of the major shareholders within the firm”, “discloses the names of the board and the key executive directors in the annual report” and “articulates its role in the economic growth”.

It is clear that the critical factors of CG are applicable to Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in competitiveness, since all items recorded average mean scores of 5.2 as presented in Chapter Five, Table 5-7. In the Jordanian context there are four main critical factors which remained after the factor analysis was conducted (see Chapter Five, Table 5-19) and can be considered a model for implementing best practice of good CG in Jordanian firms. This result implies that competitiveness is an efficient factor to align shareholders’ and managers interests, reducing the costs of agency conflict between them and thus improving the firm’s financial performance.

7.2.2.6 Culture

The sixth critical factor in CG is culture. The findings strongly recommend that human rights and violation of the code of ethics do not play an important role in the best practice of CG in Jordanian firms. With regard to whether there were any significant differences concerning culture critical factors, according to sector, age and size, the results indicated no statistically significant differences existed.

Principal component analysis was used to identify the culture critical factors in Jordanian firms. There are three critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. The sixth factor labelled “culture” includes “in our firm business relationships rules are clearly defined and available to all”, “our firm clearly defines corporate responsibilities in relation to human rights in the annual report” and “in our firm, there is a statement about the consequences of violation of the code of ethics”.

Clearly, the critical factors of CG are applicable to Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in culture, since all items recorded average mean scores of 3.9 as presented in Chapter Five, Table 5-3. In the Jordanian context there are three main critical factors which remained after the factor analysis was conducted (see Chapter Five, Table 5-20) and can be considered a model for implementing best practice of good CG in Jordanian firms. Thus, critical factors of CG suggests that effective corporate culture serves as a mechanism to align the interests of shareholders with those of managers, reducing the costs of agency conflict between them and consequently enhancing the firm’s performance and thereby maximising shareholders’ value.

7.2.2.7 Commitment

The OECD (2004) pointed out that CG should protect the rights of other stakeholder such as creditors. Also, corporate governance should support positive cooperation between the firm and stakeholders which will improve the performance of both CG and the firm. Moreover, the OECD (2004) asserts that the rights of stakeholders should be protected through mutual agreements which should be appreciated, or by law.

In general, stakeholders have a number of rights protected by law, such as the right to share in the profits of the firm (Article 191) and the right to vote on the firm's issues (Article 178). Indeed, the rights of stakeholders in Jordanian firms are protected by law, however, there needs to be more training and development in order to increase awareness of the rights of stakeholders in practice. It is worth noting, particularly in emerging markets such as Jordan, that creditors are key stakeholders.

Principal component analysis was used to identify the commitment critical factors in Jordanian firms. There are three critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. The seventh factor labelled "commitment" includes "the rights of stakeholders are respected", "there is a clear and transparent mechanism for stakeholders to obtain redress for violation of their rights" and "institutional investors contact senior executives to exchange views and information".

In short, the critical factors of CG are applicable to Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in commitment, since all items recorded average mean scores of 4 as indicated in Chapter Five, Table 5-9. In the Jordanian context there are three critical factors which remained after the factor analysis was conducted (see Chapter Five, Table 5-21) and can be considered a model for implementing best practice of good CG in Jordanian firms. This result suggests that commitment as one of the main critical factors of CG is an efficient mechanism to reduce agency conflict between shareholders and mangers and as a result, maximising performance of the firm and the wealth of owners.

7.2.2.8 Communication

The results showed that Jordanian firms disclose, in the annual report, the accounting standards adopted and NEDs develop an understanding of the views of major shareholders. These findings, in general, are in line with findings and recommendations made by the Cadbury Report (1992), Lee (2001) and the OECD survey in Canada (2001). Solomon and Solomon (2004) assert that an increase in corporate transparency is a key idea of CG reform in any country.

This is unlikely to satisfy the shareholders' and other stakeholders' requirements as Jordanian firms disclose limited information about CG structure and policies in their annual reports. A possible justification for this difference may be that the standards in the Jordanian Firm Act require only limited and basic information to be published. The results support those reported by Daily and Dalton (1992), Forbes and Milliken (1999), Fiegener et al. (2000), Huse (2000), Johannisson and Huse (2000) and Zahra et al. (2000).

Principal component analysis was used to identify the communication critical factors in Jordanian firms. There are four critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. The eighth factor labelled "communication" includes "our firm includes a section on CG practices in the annual report", "in our firm NEDs develop an understanding of the views of major shareholders", "in our firm we disclose information on the compensation for the board members and management team in the annual report" and "our firm discloses the number of board meetings held during the year".

The results presented in Chapter Five, Table 5-10 show that the critical factors of CG are applicable in Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in communication, since all items recorded average mean scores of 5.9. In the Jordanian context there are four main critical factors which remained after the factor analysis was conducted (see Chapter Five, Table 5-22) and can be considered a model for implementing best practice of good CG in Jordanian firms. This means that the critical factor corporate communication is an effective mechanism to align the interests of shareholders with those of managers, reducing the costs of the agency problem between them and consequently, enhancing the firm's performance and thereby the wealth of shareholders.

7.2.2.9 Conduct

It seems that firms in Jordan attempt to decrease conflicts of interest between managers and owners to avoid risk, since conflicts of interest destroy firm performance and increase information asymmetry in the stock exchange (Laidroo, 2009). This result aligns with the findings of Florackis and Ozkan (2009) and Morey et al. (2009). They found a proper CG mechanism will effectively reduce the conflicts of interest in a firm. Also, there are adequate procedures in place to guard against insider trading in Jordanian firms. However, the Amman financial market needs more steps to control insider trading activities. One feasible solution to decrease insider trading activities is to decrease information leakage. However, illegal insider trading is hard to detect, since it is hard to track the pattern of trading (Keown and Pinkerton, 1981).

Furthermore, the findings indicated no statistically significant differences existed between sectors and firms according to age. Large-size firms employ more balanced CG systems compared to small-size firms. The results align with the findings of Dey (2010). He found in his study that large firms in the stock market have sound practice of CG, compared to smaller ones.

Principal component analysis was used to identify the conduct critical factors in Jordanian firms. There are five critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. The ninth factor, labelled "conduct", includes "there are guidelines for serving as a director", "there are guidelines regarding conflicts of interest", "there are clear guidelines on privacy and data protection", "there are strict guidelines for safety, health and the environment" and "there are adequate procedures in place to guard against insider trading".

The findings show that the critical factors of CG are applicable to Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in conduct, since all items recorded average mean scores of 5.2 as indicated in Chapter Five, Table 5-11. In the Jordanian context there are five main critical factors which remained after the factor analysis was conducted (see Chapter Five, Table 5-23) and can be considered a model for implementing best practice of good CG in Jordanian firms. Therefore, conduct as one of the critical factors of CG serves as a mechanism to align the interests of shareholders and managers, reducing the costs of agency conflict between them and consequently, maximising the firm performance and shareholders' value.

7.2.2.10 Conscience

The results indicate that, generally, participants reported strong levels of agreement with regard to factors listed about conscience, since all items recorded average mean scores of 5.6. Generally, Jordanian firms maintain an independent relationship between their firms and the “recipient” of the charitable contribution. The results align with the findings of Dige (2003). He found that the board not only prepares for and attends the board and committee meetings, but also has time to interact with the chief executive, to meet with other staff and directors, and to carry out important external relationships (Doug, 2003). These relationships may include participation in community development, sponsoring educational programmes and being involved in charitable contributions.

The results indicate that older firms and large-size firms are more willing to apply a balanced CG system compared to newly formed and small-size firms. The results correspond with the findings of Dey (2010), Fiegener et al. (2000), Huse (2000), Johannisson and Huse (2000) and Zahra et al. (2000).

Principal component analysis was used to identify the conscience critical factors in Jordanian firms. There are five critical factors that can be considered a model for implementing best practice of good CG in Jordanian firms. The tenth factor labelled “conscience” includes “our firm participates in community development programmes”, “our firm sponsors educational and/or training programmes for the community”, “our firm is involved in charitable contribution” and “we maintain an independent relationship between our firm and the ‘recipient’ of the charitable contribution”.

From the above discussion, the critical factors of CG are applicable to Jordanian firms, as all participants scored highly, on average, on all the elements measuring good practice in control, since all items recorded average mean scores of 5.6 as presented in Chapter Five, Table 5-12. In the Jordanian context, after the factor analysis was conducted, all five critical factors were considered (see Chapter Five, Table 5-4) as models for implementing best practice of good CG in Jordanian firms. Clearly the results indicated that conscience serves as a mechanism to align the interests of shareholders and managers, this is mainly attributable to the fact that practising conscience critical factor of CG by the firms will increase the effectiveness and the efficiency of CG, which in turn reduces the agency problem and consequently enhances shareholder value.

7.2.3 Corporate Governance and Performance

This section reports and discusses the empirical results of the regression models which represent the effect of the critical factors of corporate governance on firm performance of Jordanian listed firms measured by return on asset (ROA). The section is based on a quantitative approach using questionnaires to survey perceptions of listed firms' staff (CEOs, financial managers, directors of internal control and deputy directors) regarding the extent to which the small size of the board, the existence of institutional investors, a separation between the position of CEO and Chairman, the existence of independent NEDs, the use of subcommittees and a strong disclosure regime, contribute to improved firm performance. The results align with the many findings presented in Table 7-1. Thus, this section presents an analysis of the results derived from the questionnaire survey, which was designed to collect the general perceptions of the staff of Jordanian listed firms.

As presented in Chapter Five, Table 5.13, the main findings indicate that all participants had positive perceptions regarding corporate governance mechanisms, namely, small size of the board, existence of institutional investors, separation between the position of CEO and Chairman, existence of independent NEDs, use of subcommittees and strong disclosure regimes. Analysis of the collated data supports, in general, all of the items presented in the questionnaire. Participants strongly agreed with these mechanisms for contributing to improved firm performance. These findings align with the literature. Their strong agreement with the items presented in the questionnaire was reflected in the high mean scores.

Size of the board, previous studies of other developed markets indicate that the characteristics of a board of directors will affect firm performance (e.g. Jensen, 1993; Mura, 2006; Schmid and Zimmermann, 2008). Board of directors' influence on firm performance is affected by board size. Balasubramanian et al. (2010) state that in an emerging market, firm size is a factor that increases the quality of CG. Previous studies also indicate that firm size will help firms gain innovation advantages in an emerging market (Acs and Audretsch, 1987; Vaona and Pianta, 2008; Rochina-Barrachina et al., 2010). Jensen (1993) states that board size is an important factor in evaluating the performance of the board of directors. Yermack (1996), Hermalin and Weisbach (2003) and Guest (2009) point out that a smaller board is associated with better firm performance. In western listed firms, such as in the UK or US, board size determines the performance of a board of directors and therefore influences the performance of firms (Lakhal, 2003). Yermack (1996) and Eisenberg et al. (1998) state that a smaller board leads to firms achieving better firm performance in the market. The results, presented in Chapter Five, Table 5.13, indicate that Jordanian listed firms conform with these results. Jensen (1993), Lorsch (1992) and Hermalin and Weisbach (2003) emphasise that a small board can help to improve the firm's performance. However, an agency model suggests that a large board eliminates corporate value.

Institutional investor is a solution to the problem of the free rider, since it concentrates ownership and increases the influence of shareholders who can drive corporate executives to increase firm performance (Admati et al., 1994; Lin et al., 2007). The results in Chapter Five (Table 5.13) support the idea that institutional investors are a positive factor in the improvement of firm performance of Jordanian listed firms. The majority of Jordanian investors are small investors and they lack the power to monitor the managerial activities of Jordanian listed firms, which would in turn motivate the managers to increase firm performance (Hovey, 2003). As the market develops, institutional investors will improve the effectiveness of CG mechanisms, thereby further helping Jordanian listed firms to achieve better firm performance (Kini et al., 1995).

Board subcommittees, the empirical results show that there is a positive relationship between subcommittees and firm performance (see Chapter Five, Table 5.13). This is consistent with studies in the developed market (Bizjak and Anderson, 2000; Ruigrok et al., 2006; Laplante and Tong, 2007). As the market developed, more Jordanian listed firms began to pay attention to the issue of CG. Thus, subcommittees now have more opportunities to influence firm performance of Jordanian listed firms.

Role Duality, empirical results obtained from Chapter Five (Table 5-13) indicate that role separation of CEO and Chairman does affect firm performance positively, since the separation of the two positions will reduce agency costs in firms and improve performance. If a firm separates its CEO from the chairmanship of its board of directors, there will be fewer conflicts of interest in the firm, thereby helping the firm to achieve good performance (Fama and

Jensen, 1983). For instance, Daily and Dalton (1997) showed that the agency approach, in separating the position of the CEO and the Chairman, has some important outcomes.

Independent NEDs, furthermore, the results from the same table emphasise that the role of NEDs in Jordan does affect firm performance. In the UK the Cadbury Report (1992), Hampel's Report (1998), and the Combined Code (2010) emphasise the role of NEDs in bringing an independent judgment to bear in issues of strategy, performance, and resources. Fama and Jensen (1983) are supporters of boards as a monitoring mechanism, and believe that NEDs are central to an effective resolution of agency problems between managers and shareholders.

The results of the current study indicate that NEDs play a role in improving corporate performance. This result is in line with many studies conducted by Rosenstein and Wyatt (1990), they found that clearly identifiable announcements of the appointment of an outside director selected by management are significantly associated with positive abnormal stock returns, as do studies conducted by Baysinger and Butler (1985), Weir and Laing (2001), Rosenstein and Wyatt (1990), Laing and Weir (1999), Bhagat and Black (2002) and Hermalin and Weisbach (1991).

Corporate Disclosure, empirical findings obtained from Chapter Five (Table 5-13) as perceived by participants, indicated that strong regime disclosure does affect firm performance positively. Clearly, high quality disclosure will help firms achieve a better performance in the market (Koh et al., 2007; Jia, 2011). Koh et al. (2007) emphasise that a high quality of disclosure will help firms achieve a better performance in the market. Corporate shareholders rely on corporate disclosure to evaluate the performance of corporate executives. Improving managerial transparency is one purpose of the CG mechanism ǁ/KŜy et al., 2007a). Nelson (2005) shows that a greater quality of CG positively affects firm performance. A good CG mechanism will motivate corporate executives to better fulfil their duty. An optimal CG mechanism imposes appropriate performance pressure on firm managerial teams, to ensure that managerial activities are aligned with the interests of the corporate shareholders. If there is an appropriate alignment, executives of the firms will have more incentive to increase firm performance. Thus, a high quality of corporate disclosure will increase the confidence of market investors, since it reduces information asymmetry and market uncertainty. Effective corporate internal auditing will detect managerial wrongdoing and deter the executives from involving themselves in self-interested activity. For instance, using an independent audit committee will enhance firm performance (Koh et al., 2007). A high quality of disclosure and an effective managerial team will help firms achieve a better performance in the market. The high accuracy and transparency of corporate disclosure is one objective of a good CG mechanism, as it facilitates corporate shareholders to protect their rights (OECD, 1999; OECD, 2004).

Solomon and Solomon (2004) indicate that “increased and improved disclosure is likely to reduce agency costs as better information flows from the firm to the shareholders, which in turn reduces information asymmetry” (2004, p.120). CG mechanisms consist of stockholder rights, disclosure and transparency, responsibilities of boards of directors (BODs), board committees and conflicts of interest, (OECD, 2004; Wong, 2009; Wanyama et al., 2009; McGee, 2008; Black et al., 2008; Gupta, 2008).

Agency theories (Jensen and Meckling, 1976; Healy and Palepu, 2001) point out analysts' roles as external monitors for management and imply a negative association between analysts' monitoring costs and disclosure quality. This explanation implies a positive relationship between disclosure rankings and firms' future operating performance, as increased transparency of disclosure will help investors to monitor listed firms effectively and protect their rights.

7-1 Corporate Governance Mechanism and Performance

Corporate governance mechanism	Firm performance	Empirical studies
Small size of the board	Improve firm performance	Weisbach (2003), Guest (2009)
Existence of institutional investors	Improve firm performance	Admati et al. (1994), Lin et al. (2007)
Separation between the position of CEO	Improve firm performance	Fama and Jensen (1983), Schmid and Zimmermann (2008)
The existence of independent NEDs	Improve firm performance	Weir and Laing (2001), Bhagat and Black (2002)
The use of subcommittees	Improve firm performance	
Strong disclosure regime	Improve firm performance	Koh et al. (2007)

Regression Techniques have been conducted aimed at identifying the most important critical factors affecting firm performance. Using the dependent variable market measure of firm performance (ROA), Table 5-26 presents the estimation results of the regression model that are used in the current study to investigate the impact of critical factor CG on the performance of the firm. The diagnostic test suggests that the model facing no multicollinearity problem, where the VIF of all factors range between 1.069 and 2.594, with an average of 1.395, is less than the value suggested by Gujarati (2003) for the present multicollinearity problem.

With respect to the F-statistic, the result shows that the P-value of the F-statistic is statistically significant; this implies that at least one of the estimated coefficients is not zero. As can be seen in Table 5-26 the estimated coefficient of constitution, compliance and conscience critical factor of CG were found to be statistically significant at 5% level in the regression model. Interestingly, the researcher reran the regression with only the significant variables, the results confirmed the same estimated coefficient on constitution, compliance and conscience critical factor of CG were found to be statistically significant at 5% level in the regression model.

The positive sign of the estimated coefficient suggests that constitution, compliance and conscience critical factor of CG have a positive influence on the performance of the firm. This implies that applying constitution, compliance and conscience critical factor of CG will reduce agency cost and conflict between managers and shareholders. This is mainly attributable to the fact that practising constitution, compliance and conscience critical factor of CG by the firms will increase the effectiveness and the efficiency of CG, which in turn reduces the agency problem and consequently enhances shareholder value (Ammann et al., 2011). In Jordan more compliant and conscience firms enjoy a higher reputation with investors. Thus, there is a clear message from firms to investors and regulators. Furthermore, in Jordan, corporate social responsibility is considered a marketing tool for firms. Interestingly, Jordan employed many reforms to integrate its capital market with international ones, so many steps in this direction were taken to increase and attract internal and external investment.

With respect to other critical factors of CG, the results suggested no influence of these critical factors (control, competence, competitiveness, culture, commitment, communication and conduct) on firm performance, regardless of their sign, indicating that they have no effect on firm performance, and the estimated coefficients of these variables are found to be statically insignificant. At the same time, Table 5-26 shows firm size and age do not affect firm performance, which is measured by the return on asset (ROA) in Jordanian listed firms, because all estimated coefficients are statically insignificant.

Finally, regression techniques have been conducted aimed at identifying the most important critical factors affecting firm performance. Using the dependent variable, market measure of the firms' performance (ROA), Table 5-26 presents the estimation results of the regression model that are used in the current study to investigate the impact of critical factor corporate governance on performance of the firm. The diagnostic test suggests that the model is facing no multicollinearity problem, where the VIF of all factors ranges between 1.069 and 2.594, with an average of 1.395, which is less than the value suggested by Gujarati (2003) for the existence of the multicollinearity problem.

With respect to the F-statistic, the results show that the P-value of the F-statistic is statistically significant; this implies that at least one of the estimated coefficients is not zero. As can be seen in Table 5-26, the estimated coefficient of constitution, compliance and conscience critical factor of corporate governance were found to be statistically significant at 5% level on the regression model. The positive sign of the estimated coefficient suggests that constitution, compliance and conscience critical factors of corporate governance have positive influence on performance of the firm. This implies that applying constitution, compliance and conscience critical factor of corporate governance will reduce agency cost and conflict between managers and shareholders. This is mainly attributable to the fact that by practising constitution, compliance and conscience critical factors of corporate governance firms will increase the effectiveness and efficiency of corporate governance, which in turn will reduce the agency problem and consequently enhance shareholders' value (Ammann et al., 2011). In Jordan more compliant and conscience firms enjoy a higher reputation with investors. Thus, there is a clear message from firms to investors and regulators. Furthermore, in Jordan, corporate social responsibility is considered a marketing tool for firms. Interestingly, Jordan employed many reforms to integrate its capital market with international ones; so many steps in this direction were taken for increasing and attracting internal and external investment.

With respect to other critical factors of corporate governance, the results suggest no influence of these critical factors on firm performance, as the estimated coefficients of these variables are found to be statically insignificant. To improve performance, a company has to reduce the conflicts of interest among its participants; with fewer conflicts of interest, there will be a lower agency cost in a company. A good corporate governance mechanism will reduce the conflicts of interest among corporate participants, thereby increasing firm performance of the companies (Klapper and Love, 2004).

At the same time, Table 5-26 shows that firm size and age are found not to affect the firm's performance, which is measured by the return on asset (ROA) in Jordanian listed firms, because all estimated coefficients are statically insignificant.

7.2.4 Factors Inhibiting the Best Practice of Good CG in Jordan

In general, participants showed a strong level of agreement with regard to the factors listed. Jordanian firms ranked lack of knowledge of board of directors about CG principles as the key item preventing best practice of good CG in Jordan. This result is in accordance with those of Dahya et al. (2002). Their results reported that most firms in China, in their research, accepted that the board can be categorised into one of the following kinds, a board that rarely gives advice or a board of directors that does not do anything. This is because of lack of motivation, autonomy, legal authority and information.

On the other hand, the least important factors were "weakness of the legal environment for firms" and "government intervention in firms". This result can be clarified due to the Firm Law in Jordan still being undeveloped, therefore more concern should be given to the law that governs firms' activities. In addition, Jordanian law does not force all firms to act in accordance with the law, but gives them the freedom act in accordance with their internal policy which may vary from one firm to another.

The Man-Whitney and Kruskal Wallis tests indicated that there were no statistically significant differences across the two sectors, size or age of the firm which is observed from the reported p-value. This means that small or large firms and older or newly issued firms report agreement with the items preventing best practice of good CG in Jordanian firms.

In summary, the questionnaire survey results indicate that, in general, respondents agreed that all the items listed inhibited the practice of effective CG in Jordan, because most items were strongly agreed with by respondents. In addition, the questionnaire survey respondents ranked lack of knowledge of the board of directors about CG system as the key item preventing best practice of good CG in Jordan, followed by the financial cost of applying it. Also, the majority of interviewees agreed that lack of knowledge of the board of directors about CG system is the primary factor inhibiting the practice of good CG in Jordan, followed by the lack of systems and procedures governing firm activities, because there is no system that compels firms to practice the CG system, and there are no procedures to monitor the practice.

The alternative is to overcome these obstacles by employing qualified staff to implement and strengthen CG practices. Also, spreading awareness should be done by firms to organise training for their board and employees regarding the application of CG in Jordan. Furthermore, the government should focus on education by developing the curriculum, having specialist institutes and launching training courses for members of corporate management. It is clear that the interview survey results on balance tended to confirm the results obtained from the questionnaire survey. The next chapter is devoted to the conclusions and recommendations.

7.3 Summary

Chapter seven completes the analysis of the results from the data collection of this study. This chapter has presented analysis of the questionnaire survey and the qualitative approach. The responding firms belonged to two sectors, namely the industry and service sectors. The firms varied in size from small to large, though small and medium size firms dominated the sample.

A number of topics have been discussed. One of the main results is that compliance, conscience and constitution factors were significant in the ROA regression model. Firms, in the context of Jordan, should give extra attention to these critical factors because they are considered the most important success factors for good CG; otherwise they will face a series of collapses. Also, the chapter provided a broader overview of the current state of corporate governance in Jordan. A number of obstacles affecting corporate governance were discussed and solutions suggested to overcome these obstacles.

Shortly, the results of this study are to be confirmed in other studies conducted in developed countries, that the application of a corporate governance system will protect shareholders' rights and increase shareholders wealth, as well as increasing the trust of stakeholders and strengthening links between the firm and stakeholders, which means reducing the conflict of interest and agency problem between them, which, in turn, will enhance the performance of the firm and at the same time maximise shareholders' value. Thus, applying effective CG will encourage firms to create a strong relationship between firms, shareholders and other stakeholders. Simple, effective CG is a mechanism that may align the interests of managers and shareholders.

The findings of this study indicate that most Jordanian firms, especially large and old ones, apply CG systems and monitor their implementation. This will encourage these firms to possess a strong monitoring and management system which will help retain and attract local and external investors. This confirms the importance of effective CG in developing countries, including Jordan, and indicates that across countries CG is an important factor in financial market development and firm value. Thus, the findings of the current study extend the application of CG outside developed countries to confirm that investment in corporate governance practices increases, and contribute to maximising, firm performance, thereby maximising shareholders' value. Chapter Eight will be devoted to conclusions and recommendations.

In short, the current study will fill the gap in the literature by examining and providing a comprehensive view of the current state of CG in Jordan. Such a comprehensive view would serve as a basis to identify weaknesses and problems of CG in Jordan. In turn, this will help the main regulatory bodies to overcome the problems and improve the weaknesses in current practice, to ensure the success of their corporate governance improvement initiatives. It also provides support for related parties to cooperate in improving the corporate governance code in Jordan to meet international requirements. In addition, the findings of this study will be useful for developing and improving the current corporate governance system in Jordanian companies. Further, the findings of the current study will be disseminated at international conferences as well as providing training programmes to policy makers and directors of firms in MENA countries, including Jordan.

In addition, it adds on to the effort by the Jordanian government to bring Jordan into the worldwide corporate governance reform group and give new opportunities for firms to apply international corporate governance best practice.

What we do now know is that the issues involved in good CG are actually concerned with how they ought to practice rather than how they may behave in practice, hence, improving CG in Arab countries, including Jordan, will require increasing the current engagement in best practice sharing of good corporate governance implementation. Therefore, we should ask why and how we should redress the current practice of corporate governance that we didn’t know before.

CHAPTER EIGHT

8 CONCLUSIONS AND RECOMMENDATIONS

8.1 Summary of Findings

The recent series of financial scandals and crises have impaired investor confidence, as well as the future development of the financial market. Thus, many countries have begun to undertake a series of reforms to restore the financial system and rebuild investor confidence. One of these aims to improve the quality of the corporate governance mechanism of listed firms. Thus, the corporate governance mechanism is employed to align the managerial activities with the interests of shareholders. The corporate governance mechanism is additionally used to reduce conflicts of interest between shareholders and mangers. A decrease in conflicts of interest will reduce agency cost, thereby increasing firm performance.

As one of the foremost emerging markets in the MENA, the CG mechanism of Jordanian listed firms is not as sophisticated as that of firms in the developed markets. Although the Jordanian financial market has experienced economic reforms for 20 years, the market mechanism is still unsophisticated. Investors in the Jordanian market complain that their investment cannot be effectively protected by the market's regulatory system. Hence, a good corporate governance mechanism will provide protection to shareholders' investments which, in turn, reduces the conflict of interest among corporate participants, thereby increasing firm performance. One of the purposes of this study is to empirically test the effects of the critical factors of the corporate governance mechanism on firm performance.

As mentioned in Chapter Two, Jordan opened the door to foreign investors to become more global, which brings numerous, international firms to invest in Jordan. This means that large Jordanian firms have to compete with international firms and expand their activities internationally. This requires them to adopt a new policy which is the corporate governance system, to manage and control all activities, in order to be able to compete with international firms entering the market.

The present study is extremely important, because it indicates how applying a strong corporate governance system may benefit the country through attracting more local and foreign investors to the Jordanian market. An effective corporate governance system will provide internal and external investors with assurance that there is a strong system protecting them and their rights.

The main objective of this study is to provide a comprehensive study of the nature and current practice of corporate governance in Jordanian firms. To achieve this objective, the study investigated the current practice of corporate governance in Jordanian firms. Participants in the study, namely managers in Jordanian listed firms, were elicited regarding the current practice of corporate governance in their firms. In particular, the research objectives mentioned in the research methodology are as follows:

- To identify the determinants of critical factors for implementing best practice of CG in Jordan.
- To explore the current practice of the CG system in Jordan.
- To identify the factors that inhibit best practice of CG in Jordan.
- To empirically investigate the effects of CG on firm performance (financial measures) in Jordan.
- To explore the participants' perceptions regarding the effect of CG on firms' performance in Jordan.
- To investigate the relationship between corporate governance practices and firm characteristics (firm size, firm age and sector) in Jordan.

Five research questions were designed to accomplish the above aims and objectives. Data were collected via a questionnaire survey and interviews were conducted to answer the research questions.

The main findings in respect of the research questions were as follows. Participants agreed that corporate governance is implemented to protect shareholders' and stakeholders' rights and determine the responsibilities of BODs in Jordanian firms. The findings suggest that specific variables of best practice of corporate governance in the Jordanian firms are critical to the implementation of the CG system. The participants of the study ranked, 'directors are required to disclose any matters that may affect the firm' as the primary critical contributing factor,

Regarding the audit committee, results clearly indicate that the audit committee plays an important role in Jordanian firms, because it provides useful information to shareholders, helping them make informed decisions and evaluate a firm's performance over time as well as ensuring trust and peace of mind. The results also suggested that both non-financial and financial information in Jordanian firms need more disclosure, because the financial information provided in Jordanian firms does not help participants to make comparisons between them. The results indicated that corporate governance will improve the quality of disclosure and reduce asymmetric information. Hence, there will be fewer conflicts of interest in the firms, helping firms to achieve good performance. Concerning factors influencing the appointment of NEDs in Jordanian firms, the results revealed that, in general, participants ranked, ‘experience’ and ‘possess global business’ as the first factors that might influence the appointment of a board’s NEDs.

The results also indicate that cumulative voting was not employed in spite of this safeguarding the rights of minority shareholders by allowing them to work as a group to elect a candidate of their choice, who, as a member of the board of directors, would represent them. The results also showed that most firms have different people in the two positions of Chairman and CEO. With regard to the conflict of interest with the BODs, the results indicate that the majority of participants stated clearly that their firms have no clear written regulations for the directors and staff regarding this issue.

Finally, there are a number of obstacles affecting the practice of good corporate governance. These are: ‘lack of knowledge of board of directors about corporate governance principles’; ‘weakness of the organisation’s management’; ‘weakness of the legal environment’; ‘absence of training programmes for members of the board of directors about the governance system’; and ‘the financial cost of applying the governance system’. On the other hand, the overall impression gained from the participants was that while substantial progress had been made in those firms attempting to implement the

Jordanian corporate governance code, it was not reasonable to expect complete compliance in firms, and within a corporate culture, where the rights of stakeholders was a new concept and no history of effective corporate governance existed. In order to provide a more complete picture of Jordan's attempts to improve the corporate governance code, the findings provided valuable insight into obstacles facing the implementation of the code.

While agreeing with senior managers about the urgent need for an effective corporate governance code in Jordan, regulators considered the level of implementation of the code as still lower than expected. Regulators regarded the main advantages of corporate governance as being protection of shareholder rights, oversight of management performance and regulation of the relationship between boards of directors and shareholders. Regulators agreed with managers that the code faced many obstacles to its successful implementation. Suggested solutions to overcome these obstacles were, 'developing corporate governance education programmes' as well as 'organising workshops and training'. In addition, firms were felt to need more freedom, empowerment and support from the government in this context. Overall, education was perceived to be the key to overcoming obstacles to the code. Participants viewed the Jordan Securities Commission as a very important authority, and felt it should force all Jordanian firms to practise an effective corporate governance system and monitor its implementation. This will assist these firms to possess a strong monitoring and management system which will help attract local and external investors.

The findings of this study have confirmed and extended the current literature, confirming that most large firms are applying the corporate governance system, deriving many benefits from it, and advising others to apply it. Good corporate governance mechanisms reduce the conflict of interest among corporate participants, thereby increasing firm performance. This study empirically investigates the effect of corporate governance mechanisms on performance of Jordanian listed firms. The study found that constitution, compliance and conscience are effective critical factors for best corporate governance practice which have a positive impact on firms' performance. Also, empirical results of this study are consistent with the following CG mechanisms.

- Subcommittees increase the quality of the corporate governance mechanism of the listed firms to help them reduce the conflict of interest between executives and shareholders, which in turn helps improve firm performance.
- Institutional investors will help to improve performance of Jordanian listed firms.
- Small size of the board will help to improve performance of Jordanian listed firms.
- Separation between the position of CEO and Chairman will help to improve performance of Jordanian listed firms.
- Existence of independent NEDs will help to improve performance of Jordanian listed firms.
- Strong disclosure regimes will help to improve performance of Jordanian listed firms.

Having summarised the study overall and highlighted the main findings, the following sections indicate the study’s limitations, make a number of recommendations and suggest areas for future research.

8.2 Recommendations

The past decade has witnessed the appearance of many local, national and international corporations and organisations specialising in the preparation and presentation of the ideal criteria for firm management best practices as well as effective supervision of them. These corporations and organisations have also helped support the procedures and frameworks used to manage and redirect firm affairs in order to enhance performance, disclosure and transparency, and maximise shareholders’ profits in the long run, thereby protecting their interests. In this context, most countries have established their own private rules for the corporate governance code to complement their legal, organisational and administrative environments.

It was noted in Chapter Two that countries’ cultures, including their political and economic circumstances, play a major role in their adopting and preparing their corporate governance systems. As a result, countries’ efforts and interests differ with regard to practising the system, in addition to there being a difference in the responsible parties supporting its implementation. It is very important to point out that there is no single pattern or code for best practice, and this is why different frameworks exist for corporate governance in different countries governed by their own unique laws and systems controlling the financial markets.

Most of the tools of the corporate governance code in Jordanian firms exist within a group of systems and laws, most importantly, the Jordanian Firms Law for the year 1997 with its modification in 2002 and other systems and laws which relate to the corporate governance code in a direct or indirect way. However, the practice of the corporate governance system requires support and development as well as interaction between external and internal system requirements of the firms' systems and the Jordan Securities Commission.

Thus, in light of the research results, the researcher recommends the following:

- Effective corporate governance practices will remain a major challenge in Jordan, and may be achieved by providing training programmes, education and workshops to appropriate staff as well as learning from the relevant experience of developed countries. This will help policymakers significantly.
- This study advises policymakers in Jordan to adopt and clearly define the role of independent NEDs.
- The laws and systems should be reviewed in order to come in line with international standards and best practices of corporate governance.
- It is important that policymakers keep in mind the size of Jordanian firms (small, medium and large). It is not possible to devise different codes for firms belonging to these three segments, however the code can be adjusted to the needs of all Jordanian firms. It is particularly important to bear in mind the problems of small firms.
- More disclosure and transparency is required in Jordanian firms to

protect the interests of investors, and this can be achieved by implementing new policy measures on disclosure and transparency for an effective corporate governance system.

- Firms should have clear written regulations for the directors and staff to follow regarding conflicts of interest.
- Jordanian listed firms should increase the proportion of institutional ownership in the ownership structure. This recommendation may strengthen the internal governance of Jordanian listed firms, thereby increasing firm performance.
- Firms should recognise the critical factors, namely, constitution, compliance and conscience that must certainly be considered to ensure successful best practice of the corporate governance system in Jordan. Firms should be aware that without taking into account these critical factors, the corporate governance system will definitely fail.

8.3 Contribution of the Study

This study contributes to the body of knowledge by providing a general understanding how CG is considered in an emerging market and, in particular, in Arab countries such as Jordan. The current study contributes to academic research by recognising a series of critical factors that must be carefully considered to ensure successful best practice in the corporate governance system. The results of this study should enhance the current practice of critical factors for implementing best practice of corporate governance in Jordan; in essence, the results of this research will help management by identifying it.

From the academic research perspective, this study has contributed to the methodology of research on identifying the determinants of critical factors for implementing best practice of corporate governance in Jordan by demonstrating triangulation of qualitative and quantitative methods. Study based on either a quantitative or qualitative strategy alone will be inadequate to get this deeper understanding, even though a single method (quantitative or qualitative) has mostly been applied in most previous empirical studies. Consequently, this study has contributed to the methodology of research on critical factors for implementing best practice of corporate governance in Jordan by demonstrating triangulation of qualitative and quantitative methods.

As mentioned, there is no research published on critical factors for implementing best practice of corporate governance in MENA countries, particularly in Jordan. Therefore, without taking into account these critical factors, corporate governance systems will definitely fail. Another significant contribution is that this study is the first effort to identify the obstacles that inhibit the application of good corporate governance. Above all, there is not much research done into corporate governance in Jordan. To the extent of the knowledge of the researcher, this study is the first of its kind in Jordan. Practically, this study will make a contribution to Jordanian CG by helping in the establishment of a Jordanian Association of Directors. This institute should be independent, responsible for transfer of knowledge and cooperate with policymakers who organise CG regulations to protect the interests of all stakeholders. Hence, it is expected that the outcomes of this study will provide helpful insights in regards to policy recommendations and implications for scholars and regulators.

This study draws the attention of the Jordan government (the Ministry of Commerce, the Ministry of Finance, and the Jordan Securities Commission), professional organisations, business employers, investors and firms, to the need for and importance of implementing good corporate governance systems in Jordanian firms. It also provides support for related parties to cooperate in improving a corporate governance code in Jordan. Furthermore, this study provides a foundation for future research on the corporate governance system, in order to meet international requirements for developing the current Corporate Governance Code in Jordan.

8.4 Limitations and Scope for Further Research

The current practices of corporate governance in Jordan have been the main concern of this study. In order to achieve the study's objectives, two instruments were used for the collection of data, namely questionnaires and semi-structured interviews. Using these instruments to collect data, the researcher encountered the following limitations: firstly, time and cost constraints. Secondly, the study focused on exploring the current practices of corporate governance systems in Jordanian firms. It did not contact proprietorships, partnerships or close-held firms. Thirdly, the questionnaire and interview survey findings represent only the views and experiences of the targeted participants in Jordan, which were restricted by the choice of questions used, as well as the participants selected. Fourthly, both instruments included questions eliciting the participants' opinion of issues under study, however, participants' responses may have been influenced by some factors which may, in turn, affect the quality and generalisability of findings. Finally, the study's results are restricted to Jordan only; cultural, social, accounting and investment environment differences from other countries may prevent wider generalisations.

Despite the aforementioned limitations, this thesis makes a valuable contribution to our knowledge by confirming and extending the usefulness of applying an effective corporate governance system not only in developed countries but also in developing countries including Jordan. Further research is needed to explore corporate governance practices in specific sectors, for example, in firms in the banking sector, due to their importance in Jordanian economic development. Also, research is recommended in the context of MENA countries to explore the practices of the corporate governance system to fill the gap in the literature relating to these countries.

REFERENCES

APPENDIX A QUESTIONNAIRE

Questionnaire Letter

Dear Sir/Madam

The attached questionnaire is part of a research project that I am undertaking in partial fulfilment of the award of a Ph.D. degree in Accounting and Finance at Bradford University, UK. The objective of the study is to investigate the main critical factors for implementing best practice of good corporate governance (CG) in Jordan.

We would be very grateful if you could spend twenty minutes of your time to complete the questionnaire. We can assure you that all the information you provide will be treated in the strictest confidence and only the summarised data will be used for research purposes. Therefore the identity of the participating individuals and firms will not be revealed in any published work or to anyone who is not part of the research project.

Your cooperation in completing this survey is greatly appreciated. Thank you for your time and effort.

Yours faithfully,

Prof.Mohamed Zairi	Raed Hendawi
School of Management	School of Management
University of Bradford	University of Bradford
Bradford- UK	Bradford- UK

Section 1 – Respondent demographics

1- Job title

☐Chief Executive Officer ☐ Deputy Director

☐ Financial Manager ☐ Director of Internal Audit

☐Other (pleases specify).

2- Business sector ☐ Industrial ☐ Services

SECTION 2 – GENERAL INFORMATION ABOUT THE FIRM

Please indicate the extent to which you agree with each of the following statements using a scale from 1 to 7, where

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Moderately Disagree	Neutral	Moderately Agree	Agree	Strongly Agree

No	**Element 1:Constitution**	**Rating**						
		1	**2**	**3**	**4**	**5**	**6**	**7**
1.	There is a formal and transparent procedure for the appointment of new directors to the board.							
2.	The roles of the Chair and the CEO are split between different directors							
3.	Directors are required to disclose any matters that may affect the firm.							
4.	All board committees are composed of executive and non executive directors (NEDs).							
5.	We specify the maximum duration for directors – including the chairman-to serve in the board.							
6.	We include information on the duties and responsibilities of board committee in our annual report.							
7.	We disclose the structure hierarchy/network of the firm in the annual report.							
No	**Element 2:Control**							

8.	Our firm links rewards to long term performance.							
9.	In our firms directors and auditors explain their reporting responsibilities in the annual report.							
10.	Our firm discloses, in the annual report, whether the auditor provides non auditing services or not.							
11.	Our firm frequently changes the corporate auditor.							
12.	Our firm directors are not involved in determining their own remuneration.							
13.	Our firm reviews the effectiveness of the internal control system.							
14.	Our firm describes the work of the audit committee in the annual report.							
15.	Our firm identifies in the annual report the key risk areas of the business and the strategies to manage them.							
	Element 3:Competence							
16.	Trains new directors to read and analyze the financial statements.							
17.	Enlightens new directors about the long/short term objectives and mission of the firm.							
18.	Updates its directors about the trends and new global issues of corporate governance.							
19.	Reviews the proper technology and the system used in the firm to achieve the firm's goals.							
20.	Evaluates its process and transactions and discloses the result in the annual report.							
No	**Element 4:Compliance**							
21.	In our firm, audit committee ensures compliance with law and assures an implementation of the board's decisions.							
22.	In our firm, audit committee works independently from top management.							
23.	Our firm implements the one share/one vote system in terms of directors' election.							
24.	Our firm reviews and discloses the equality of employment opportunities in the annual report.							
25.	Our firm applies a clear mechanism for the board of directors' retirement and resignation.							

26.	Our firm monitors the application of corporate governance principles and best practice to its particular circumstances.							
	Element 5:Competitiveness							
27.	Evaluates and discloses the performance of the board and the management in the annual report.							
28.	States the firm's objectives and goals in the annual report.							
29.	Discloses the ownership of the major shareholders within the firm.							
30.	Discloses the names of the board and the key executive directors in the annual report.							
31.	Articulates its role in the economic growth.							
32.	Protects the interests of the minority shareholders.							
	Element 6: Culture							
33.	In Our firm, the ethical code is well documented and understood by employees.							
34.	In our firm business relationships rules are clearly defined and available to all.							
35.	Our firm has clear formal and informal polices.							
36.	Our firm clearly defines corporate responsibilities in relation to the environment in the annual report.							
37.	Our firm clearly defines corporate responsibilities in relation to human rights in the annual report.							
38.	In our firm, there is a statement about the consequences of violation of the code of ethics.							
	Element 7:Commitment							
39.	The rights of stakeholders are respected.							
40.	There is a clear and transparent mechanism for stakeholders to obtain redress for violation of their rights.							
41.	Employees are represented on the board.							
42.	Employees are allowed stock ownership or profit-share.							
43.	There is scope for adopting an executive's share option.							
44.	Institutional investors contact senior executive to exchange views and information.							

	Element 8 :Communication							
45.	Our firm includes a section on corporate governance practices in the annual report.							
46.	In our firm NEDs, develop an understanding of the views of major shareholders.							
47.	In our firm, We disclose information on the compensation for the board members and management team in the annual report.							
48.	Our firm discloses any interlocking directorship in the annual report.							
49.	Our firm discloses information about affiliated and subsidiary firms.							
50.	Our firm discloses, in the annual report , the accounting standards adopted							
51.	Our firm discloses the number of board meetings held during the year.							
52.	In our firm, there is a clear and transparent mechanism for stakeholders to communicate effectively with the firm.							
	Element 9:Conduct							
53.	There are guidelines for serving as a Director.							
54.	There are adequate procedures in place to guard against insider trading.							
55.	There are strict guidelines for safety, health and the environment.							
56.	There are clear guidelines on privacy and data protection.							
57.	There are guidelines regarding conflict of interest.							
58.	We have clear policy about waiver from the Codes.							

59. Please indicate the extent to which you agree with each of the following statements using a scale from 1 to 7, where

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Moderately Disagree	Neutral	Moderately Agree	Agree	Strongly Agree

Statement	Rating						
	1	2	3	4	5	6	7
Our firm participates in community development programs.							
In our firm we have a clear policy on implementing Corporate Social Responsibility.							
Our firm sponsors educational and/or training programs for the community.							
Our firm is involved in charitable contribution.							
We maintain an independent relationship between our firm and the "recipient" of the charitable contribution.							

60. Please indicate the extent to which each of the following best practice of corporate governance contribute to improving your firm's performance using a scale from 1 to 7,

1	2	3	4	5	6	7
Not at all	To a very limited extent	To a limited extent	To a moderate extent	To a considerable extent	To a great extent	To a very great extent

Statements	Rating						
	1	2	3	4	5	6	7
[illegible]							
[illegible]							
[illegible]							
[illegible]							
[illegible]							
A strong disclosure regime							

61. Please indicate the extent to which you agree with each of the following factors inhibiting the best practice of good corporate governance in Jordan using a scale from 1 to 7, where

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Moderately Disagree	Neutral	Moderately Agree	Agree	Strongly Agree

Statements	**Rating**						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Weakness of the legal environment for firms.							
Lack of knowledge of board of directors about corporate governance principles.							
Tribal loyalties of the board.							
Government intervention in firms.							
Major shareholders.							
/Ƨăű ƧŦ l·ǇǇƒèʎɏƎ ǑƧǋǇƧǋl·űŜ ƎƧǿŜǋɏl·ɏǑŜ ăèăűŜY.							
Family ownership.							
Hierarchical structures of the firm.							

Please feel free to use the space below to comment on any issue raised in the survey

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Thank you very much for taking the time and effort to complete this questionnaire.

If you would like to receive an executive summary of the findings of the study, please provide your details below:

____________________________________Email: ____________________________ Name:

APPENDIX B KEY ECONOMIC INDICAROS

Key Economic Indicators (1990-2009) (In JD Millions).

	1990	1991	1992	1993	1994
Population					
Population (in 000)	3431	3663	3804	3950	4096
Output and Prices					
GDP at current market prices	2668.3	2855.1	3493.0	3882.5	4266.2
Real Growth rate of GDP at current market prices (%)	1.0	1.8	11.2	5.8	5.8
Per Capita Income (JD) at current market prices	778	779	918	983	1042
Change in cost of living index (%)	16.2	8.2	4.0	3.3	3.6
Ratio of aggregate consumption to GDP (%)	99.0	97.4	98.4	98.8	95.5
Ratio of aggregate investment to GDP (%)	31.9	25.9	34.6	31.8	27.6
Ratio of domestic saving to GDP (%)	1.0	2.6	1.5	1.2	4.5

Public Finance	1990	1991	1992	1993	1994
Public Revenue	938.2	112.0	1358.7	1406.3	1492.3
Public Expenditure	1032.6	1099.6	1177.7	1336.6	1437.1
Deficit/Surplus (excluding grants)	-258.7	-212.8	-243.6	-93.6	-112.1
Ratio of GDP (%)	-9.7	-7.5	1.2	-2.4	-2.6
Deficit/Surplus (including grants)	-94.4	12.4	181.0	69.7	55.2
Ratio of GDP (%)	-3.5	.04	5.2	1.8	1.3
Outstanding internal public debt	1037.6	1061.7	1041.5	1143.8	1181
Ratio of GDP (%)	38.9	37.2	29.8	29.5	27.7
Outstanding external debt	5064.3	4958.6	4577.6	4229.6	3914.8
Ratio of GDP (%)	189.8	173.7	131.1	108.9	91.8

Key Economic Indicators (Cont) (In JD Millions).

	1995	1996	1997	1998	1999
Population					
Population (‘000s)	4291	4444	4600	4756	4900
Output and Prices					
GDP at current market prices	4560.8	4982.4	5192.4	5642.9	5758.7
Real Growth rate of GDP at current market prices (%)	3.9	2.1	3.1	2.9	3.1
Per Capita Income (JD) at current market prices	1063	1121	1129	1186	1175
Change in cost of living index (%)	2.4	6.5	3.0	3.1	0.6
Ratio of aggregate consumption to GDP (%)	87.8	94.9	96.9	97.9	99.0
Ratio of aggregate investment to GDP (%)	30.6	29.0	25.5	21.1	19.0

Ratio of domestic saving to GDP (%)	12.2	5.1	3.4	2.4	3.7
Public Finance					
Public Revenue	1620.6	1677.1	1574.9	1529.1	1617.4
Public Expenditure	1697.5	1717.9	1906.1	2087.7	2039.4
Deficit/Surplus (excluding grants)	-246.6	-287.8	-536.2	-296.6	-140.4
Ratio of GDP (%)	-5.4	-5.8	-10.3	-5.3	-2.4
Deficit/Surplus (including grants)	-76.6	-40.8	-331.2	-355.6	-223.6
Ratio of GDP (%)	-1.7	-0.8	-6.4	-6.3	-3.9
Outstanding internal public debt	975.4	1006.4	914.2	1119.0	1024
Ratio of GDP (%)	21.4	21.4	18.5	19.8	17.9
Outstanding external debt	4465.9	4722.8	4580.6	5009.8	5186.2
Ratio of GDP (%)	97.9	94.8	82.2	89.3	89.9

Key Economic Indicators (Cont) (In JD Millions).

	2000	2001	2002	2003	2004	2005
Population						
Population ('000s)	5,039	4940	5,070	5,200	5,350	5,473
Output and Prices						
GDP at current market prices	6,002.4	6,496.1	6,858.3	7,287.5	8,301.7	9,334.2
Growth rate of GDP at constant market prices (%)	4.2	5.3	5.7	4.1	8.1	8.1
Per capita income at current market prices (JD)	1191	1208	1258	1258	1551	1.7
Change in cost of living index (%)	.07	1.8	1.8	2.3	2.6	3.5
Ratio of aggregate consumption to GDP (%)	104.6	104	100.9	101.3	102.3	106.8
Ratio of aggregate investment to GDP (%)	20.1	NA	NA	NA	24.8	30.5
Ratio of domestic saving to GDP (%)	-4.6	-0.4	-0.9	-1.3	-2.3	-6.8
Public Finance						
Public Revenue	1610.1	1718.6	1752.1	1698.6	2958.5	3062.1
Public Expenditure	2054.1	2192.3	2289.1	2441.0	3,180.5	3,538.9
Deficit/Surplus (on cash basis)	-119.8	-155.5	-145.4	-97.2	-154.1	-416.8
Ratio of GDP (%)	-2.0	-2.4	-2.1	-1.3	-1.9	-4.6
Deficit/Surplus (on commitment basis)	-203.8	-224.3	-220.2	-196.8	-222.0	-476.8
Ratio of GDP (%)	-3.4	-3.5	-3.2	-2.7	-2.7	-5.2
Outstanding internal public debt	1,235.0	1,397.0	1,656.0	1,815.0	2,082.0	2,467.0
Ratio of GDP (%)	20.6	22.0	24.4	25.2	25.5	27.1
Outstanding external Public	4794.7	4,969.8	5,350.4	5391.8	5,348.8	5,056.7

	2000	2001	2002	2003	2004	2005
debt						
Ratio of GDP (%)	79.9	78.1	78.9	74.8	65.5	55.5

Key Economic Indicators (Cont) (In JD Millions)

	20006	2007	2008	2009	2010	2011
Population						
Population ('000s)	**5.600**	**5.723**	**5.850**	**5.980**	6.113	6.249
Output and Prices						
Gross Domestic Product (GDP) at current market prices	10,932.6	12,293.8	14,864.6	16,699.7	18.762.0	20,476.5
Growth rate of GDP at constant market prices (%)	8.1	8.8	7.8	2.8	2.3	2.6
Per capita income at current market prices (JD)	1952	2147	2540			
Change in cost of living index (%)	6.3	4.7	13.9	-0.7		
Ratio of aggregate consumption to GDP (%)	103.3	106.4	101.1	96.9	NA	NA
Ratio of aggregate investment to GDP (%)	28.7	29.2	27.9	25.2	NA	NA
Ratio of domestic saving to GDP (%)	-3.3	-6.4	-1.1	3.1	NA	NA
Public Finance						
Public Revenue	3,469.0	3,971.5	5,093.7	4,526.2	4662.8	5413.9
Public Expenditure	3,912.2	4,586.5	5,431.0	5,976.0	5708.0	6801.8
Deficit/Surplus (on cash basis)	-391.4	-568.5	-338.2	-1,449.8	-1045.4	-1387.9
Ratio of GDP (%)	-3.8	-4.7	-2.2	-8.9	-5.6	-6.8

Deficit/Surplus (on commitment basis)	-443.2	-615.0	-338.2	-1,449.8	-1045.4	-1387.9
Ratio of GDP (%)	-4.3	-5.1	-2.2	-8.9	-5.6	-6.8
Outstanding internal public debt	2,961.0	3,695.0	5,754.0	7,086.0	6852.0	8915.5
Ratio of GDP (%)	28.5	30.6	38.2	43.6	36.5	43.5
Outstanding external Public debt	5,186.5	5,253.3	3,640.2	3,869.0	4610.8	4486.8
Ratio of GDP (%)	50.0	43.6	24.2	23.8	24.6	21.9

APPENDIX C TRADING VOLUM AND MARKET CAPITALISATION

Year	Trading Volume (Million JD)	Market Capitalisation (Million JD)
1978	5.6	286.1
1979	15.9	452.3
1980	41.5	495.6
1981	75.5	834.6
1982	128.2	1,034.8
1983	141.4	1,053.3
1984	59.3	911.7
1985	66.8	926.9
1986	69.5	891.8
1987	148.2	929.4
1988	132.7	1,104.7
1989	367.6	1400.4
1990	268.9	1293.2
1991	302.9	1707.1
1992	887.0	2295.7
1993	968.7	3,464.0
1994	430.3	3,409.3
1995	419.0	3,465.4
1996	248.6	3,461.2
1997	255.2	3,862.0
1998	464.4	4,156.6
1999	389.5	4137.7
2000	287.8	3509.6
2001	662.4	4,476.4
2002	946.7	5028.9
2003	1855.2	7772.8

2004	3793.3	13033.8
2005	16871.1	26667
2006	14209.9	21078.2
2007	12348.1	29214.2
2008	20318.1	25406.3
2009	9665.3	22526.9
2010	6689.9	21858.1
2011	2850.2	19272.7
2012	1978.8	19141.5

APPENDIX D TRADING VOLUME BY SECTOR

Year	Financial	Services	Industry	Total
1990	77.6	30.8	158.0	266.4
1991	80.3	34.3	177.8	292.4
1992	228.1	123.8	526.9	878.8
1993	315.5	107.8	510.1	933.4
1994	194.6	70.0	165.7	430.3
1995	157	82.0	123.1	362.1
1996	86.2	51.0	114.4	248.6
1997	170	55.2	130	355.2
1998	198.6	47.0	218.8	464.4
1999	135.6	50.8	203.0	389.4
2000	132.7	54.1	101.0	287.8
2001	306.5	92.9	262.9	662.4
2002	361.2	114.1	471.4	946.7
2003	564.3	440.9	850.3	1855.2
2004	1,736.3	1,000.7	1,056.1	3793.3
2005	6,223.3	8,003.9	2,643.8	16871.0
2006	2959	9,233.0	2,017.6	14,209.8
2007	8779	1658	1,911.1	12,348.1
2008	9,638.9	5,422.2	5,256.8	20,318.0
2009	6,363.7	2,030.8	1,270.6	9,665.3
2010	4,174,112,697	1,744,663,490	771,210,968	6,689,987,155
2011	1,757,351,376	576,006,319	516,894,934	2,850,252,629
2012	1,189,542,872	403,893,684	385,377,323	1,978,813,879